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# Overview of Expenditures

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The Mayor's FY 2007 Proposed Budget and Financial Plan serves as a communication tool for policy priorities, agency operations, program and organizational structures, and performance measures. More importantly, the budget is a financial plan that shows sources of revenue and how money is spent. It forecasts economic and financial conditions, current and planned long-term debt financing, policy decisions, and other important financial information to operate the District's government. These elements are essential for accurate and sound management of public resources.

This chapter provides a high level overview of the District's operating expenditures as part of the FY 2007 Proposed Budget and Financial Plan. Specifically, the chapter highlights:

- Operating fund expenditures, including a comparison from the FY 2006 approved budget to the FY 2007 proposed budget, as well as a summary of major changes in expenditures in each appropriation title; and
- A discussion of fixed costs as a major cost driver.

## Introduction

The District government provides services typically delivered by states, counties, cities, and special taxing districts. The budget funds services as diverse as affordable multi-family housing development, educating children, providing health care for our most needy populations, protecting

at-risk youth, promoting economic development, police patrol, fire fighting, street cleaning, and business inspection.

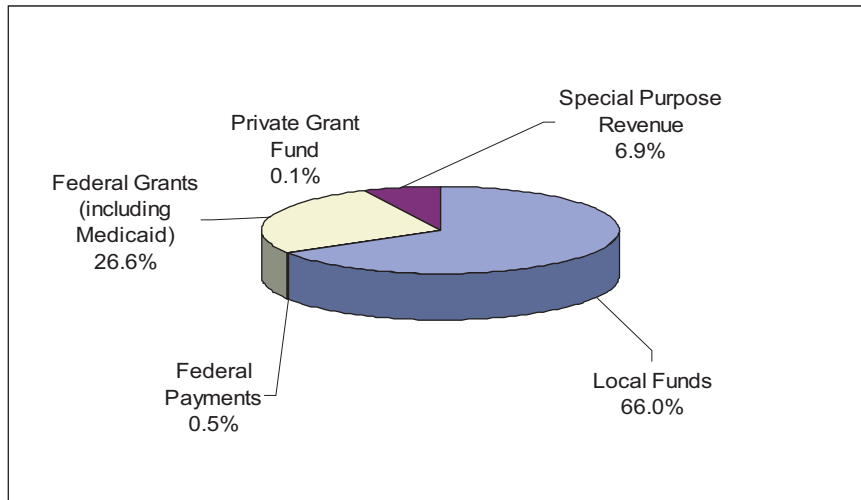
## How the Money is Allocated

To facilitate policy decisions concerning expenditures and to provide summary information for reporting expenditures, the District's budget is developed, presented, and executed along several lines. These include fund types, appropriation titles, agencies, programs, and expense categories.

The FY 2007 proposed gross funds budget of \$ 7.503 billion is \$114 million above the FY 2006 approved budget of \$7.389 billion, not including Intra-District funding or Enterprise Fund agencies. For purposes of appropriating the District's budget, agency budgets are grouped by function, such as public safety or public education. Table 1-1 and Chart 3-1 show the FY 2007 proposed gross funds expenditures budget by appropriation title and fund type.

The proposed Local funds budget for FY 2007 is \$4.951 billion, \$7 million or 0.1 percent less than the FY 2006 approved budget of \$4.958 billion. As shown in Table 1-3, the Mayor's FY 2007 proposed budget includes \$115 million in one-time expenditures. Table 1-2 also shows the FY 2006 proposed Local funds expenditures budget by appropriation title. The proposed local funds budget represents 66 percent of the proposed gross funds budget. Public Education and Human Support Services account

**Chart 3-2**  
**Local Funds Budget by Appropriation Title, \$4.950 Billion**



for 52 percent of the local funds budget. This means that one half of every dollar generated from local sources supports these two areas.

local funds proposed budget. Major agencies contributing to the increase in this appropriation title are:

### Proposed Local Funds Expenditure Budget by Appropriation Title

#### Governmental Direction and Support

The FY 2007 proposed budget for the Governmental Direction and Support appropriation title is \$325,898,260, an increase of \$29,265,937 or 9.9 percent over the FY 2006 approved budget of \$296,632,323. This appropriation title accounts for 6.6 percent of the total

- **Office of the Attorney General.** The proposed budget is \$51,549,114, an increase of \$10,744,023 or 26.3 percent over the FY 2006 approved budget of \$40,805,091. Major changes include:

- \$6,701,931 and 61 FTEs to reflect the transfer-in of subordinate agency attorney and support staff employees in legal services from various District agencies pursuant to the Legal Services Amendment Act; and

**Table 1-1**

### Gross Funds Proposed Expenditure Budget, by Appropriation Title

(Dollars in thousands)

	FY 2005 Actual	FY 2006 Approved	FY 2007 Proposed	Change	Percent Change
Governmental Direction and Support	695,768	512,834	538,238	25,404	5.0%
Economic Development and Regulation	296,501	449,668	473,266	23,598	5.2%
Public Safety and Justice	846,284	838,097	948,374	110,277	13.2%
Public Education System	1,329,653	1,454,904	1,450,996	(3,908)	-0.3%
Human Support Services	2,671,187	2,717,732	2,911,166	193,434	7.1%
Public Works	364,554	375,466	427,498	52,032	13.9%
Financing and Other	513,444	1,040,040	753,174	(286,866)	-27.6%
<b>Total</b>	<b>6,717,391</b>	<b>7,388,741</b>	<b>7,502,711</b>	<b>113,970</b>	<b>1.5%</b>

Table 1-2

### Local Funds Proposed Expenditure Budget, by Appropriation Title

	FY 2006 Approved Budget	FY 2006 Revised Budget	FY 2007 Proposed Budget	Change from FY 2006 Approved to FY 2007 Proposed Budget		Change from FY 2006 Revised to FY 2007 Proposed Budget	
				Dollars	Percent	Dollars	Percent
Gov't Direction and Support	296,632	297,632	325,898	29,266	9.9%	28,266	9.5%
Econ. Devel. and Regulation	104,829	111,729	105,320	491	0.5%	(6,409)	-5.7%
Public Safety and Justice	769,785	769,785	870,684	100,899	13.1%	100,899	13.1%
Public Education System	1,177,599	1,177,599	1,204,185	26,586	2.3%	26,586	2.3%
Human Support Services	1,276,326	1,289,426	1,361,511	85,185	6.7%	72,085	5.6%
Public Works	316,374	316,374	353,493	37,119	11.7%	37,119	11.7%
Financing and Other	1,016,216	1,016,216	729,669	(286,548)	-28.2%	(286,548)	-28.2%
<b>Total</b>	<b>4,957,761</b>	<b>4,978,761</b>	<b>4,950,760</b>	<b>(7,001)</b>	<b>-0.1%</b>	<b>(28,001)</b>	<b>-0.6%</b>

- \$3,299,443 in personal services for the 4.0 percent nonunion pay raise, legal services pay raise, and fringe benefits increases.
- **Office of the Chief Financial Officer.** The proposed budget is \$118,730,493, an increase of \$13,661,173 or 13.0 percent over the FY 2006 approved budget of \$105,069,320. Major changes include:
  - An increase of \$11,155,000 associated with revenue initiatives identified by the Office of Tax and Revenue associated with Clean Hands, Homestead Audits, Vacant Property, and Tax Fraud Detection; and
  - An increase of \$2,389,720 for Operating costs of capital associated with the Integrated Tax System (ITS) and Administrative Services Modernization Program (ASMP).
- **Office of the Chief Technology Officer.** The proposed budget is \$38,023,967, a decrease of \$1,398,069 or 3.5 percent over the FY 2006 approved budget of \$39,422,036. Major changes include:
  - A decrease of \$902,731 for Expired information technology contracts that were not renewed in contractual services in the Enterprise Systems.
- **Office of Property Management.** The proposed budget is \$19,958,568, an increase of \$4,032,689 or 25.3 percent over the FY 2006 approved budget of \$15,925,879. Major changes include:

- An increase of \$3,000,408 in fixed costs for occupancy and security services. The occupancy cost is \$4.00 per square foot charged to District agencies leasing District-owned facilities.

#### Economic Development and Regulation

The FY 2007 proposed budget for the Economic Development and Regulation appropriation title is \$105,320,267, an increase of \$491,178 or 0.5 percent over the FY 2006 approved budget of \$104,829,090. This appropriation title accounts for 2.1 percent of the total local funds proposed budget. Major agencies contributing to the increase in this appropriation title are:

- **Office of the Deputy Mayor for Planning and Economic Development.** The proposed budget is \$12,745,372, an increase of \$4,063,911 or 46.8 percent over the FY 2006 approved budget of \$8,681,461. Major changes include:
  - \$2,500,000 for the Barrack's Row Theater Acquisition in the DMPED program;
  - \$1,600,000 for the Washington Convention Center and Tourism;
  - \$1,000,000 for the Baseball Academy in the DMPED program;
  - \$600,000 for Cultural Tourism D.C. ;
  - \$500,000 for the Hoop Dreams Scholarship Fund;
  - \$500,000 for the Brewmaster Castle; and
  - \$200,000 for the Greater Washington Sports Alliance.
- **Department of Employment Services.** The proposed budget is \$37,268,110, an increase

of \$2,059,734 or 5.9 percent over the FY 2006 approved budget of \$35,208,376. Major changes include:

- \$1,825,372 for training providers for the Out-of-School/Way-to-Work program and the Summer Youth Employment program;
- \$1,323,324 for participant stipends for the Out-of-School program and subsidized employment for the Summer Youth program; and
- \$1,265,998 in additional funding for the Summer Youth Employment and Transitional Employment programs.

### **Public Safety and Justice**

The FY 2007 proposed budget for the Public Safety and Justice appropriation title is \$870,684,381, an increase of \$100,899,347 or 13.1 percent over the FY 2006 approved budget of \$769,785,034. This appropriation title accounts for 17.6 percent of the total local funds proposed budget. Major agencies contributing to the increase in this appropriation title are:

- **Metropolitan Police Department.** The proposed budget is \$420,305,607, an increase of \$66,531,749 or 18.8 percent over the FY 2006 approved budget of \$353,773,858. Major changes include:
  - \$54,790,250 is due to the impact of the FY 2005 retroactive collective bargaining agreement for officers;
  - \$4,172,278 is associated with replacement funding for 81 officers currently on the COPS grant;
  - \$4,030,057 is for projected overtime; and
  - \$3,900,000 is for the DC Public Schools security contract.
- **Fire and Emergency Medical Services.** The proposed budget is \$164,910,303, an increase of \$9,021,614, or 5.8 percent over the FY 2006 approved budget of \$155,888,689. Major changes include:
  - \$5,675,647 is primarily for pay raises associated with collective bargaining agreements and \$1,354,844 for corresponding fringe benefits and additional gross pay; and

- \$2,269,772 is associated with increased fixed costs in various commodities.

- **Department of Corrections.** The proposed budget is \$112,333,388, an increase of \$7,337,592 or 7.0 percent over the FY 2006 approved local budget of \$104,995,796. Major changes include:
  - \$5,570,019 for contract increases associated with bed space, halfway housing, information technology support, and software license renewal and hardware maintenance; and
  - \$1,044,198 for pay raises, step increases, and fringe benefits costs.
- **Police Officers' and Firefighters' Retirement System.** The proposed budget is \$140,100,000, an increase of \$22,600,000 or 19.2 percent over the FY 2006 budget of \$117,500,000. The increase is due to new contracts for both police and firefighters that led to the implementation of wage increases for several years.
- **D.C. Emergency Management Agency.** The proposed budget is \$4,836,824, an increase of \$1,215,513 or 33.6 percent over the FY 2006 approved local budget of \$3,621,311. Major changes include:
  - \$1,106,472 for fixed costs for DCEMA facilities at the new Unified Communications Center at 2720 Martin Luther King Drive.
- **Office of Unified Communications.** The proposed budget is \$5,048,329, a net decrease of \$7,598,382 or 60.1 percent from the FY 2006 approved local budget of \$12,646,711. The net decrease consists of:
  - A redirection of \$15,000,000 in personal and nonpersonal services costs from local funds to Special Purpose Revenue funds;
  - An increase of \$4,499,530 associated with revised fixed costs estimates; and
  - An increase of \$3,065,490 in additional personal services costs for reclassified positions, 12-hour shift costs in the Emergency/Non-Emergency Operations program, and approved pay/step increases.

### **Public Education**

The FY 2007 proposed budget for the Public

Education System appropriation title is \$1,204,184,794, an increase of \$26,586,022 or 2.3 percent over the FY 2006 approved budget of \$1,177,598,772. This appropriation title accounts for 24.3 percent of the total local funds proposed budget. Major agencies contributing to the increase in this appropriation title are:

- **District of Columbia Public Schools.** The proposed budget is \$810,655,971 million, an increase of \$16,410,971 or 2.1 percent over the FY 2006 approved budget of \$794,245,000 to educate approximately 58,000 students within the District of Columbia Public Schools (DCPS). The FY 2007 budget is aligned with the DCPS Superintendent's core budget request of \$810, and includes an additional \$25 million to support the District's State Education Office's recommendation to increase the Uniform per Student Foundation funding formula to a minimum of \$8,002 per student for both DCPS and public charter schools.
- **Public Charter Schools.** The proposed budget is \$264,865,572, an increase of \$25,581,411 or 10.7 percent over the FY 2006 approved budget of \$239,284,161, to educate approximately 19,345 students enrolled in public charter schools.

### Human Support Services

The FY 2007 proposed budget for the Human Support Services appropriation title is \$1,361,510,890, an increase of \$85,184,894 or 6.7 percent over the FY 2006 approved budget of \$1,276,325,997. This appropriation title accounts for 27.5 percent of the total local funds proposed budget. Major agencies contributing to the increase in this appropriation title are:

- **Department of Health.** The proposed budget is \$585,570,842, an increase of \$36,615,517 or 6.7 percent over the FY 2006 approved budget of \$548,955,325. The increase consists primarily of:
  - \$9,804,818 across various activities in the Medical Assistance Administration for a projected 2.3 percent increase for Medicaid provider payments;

**Table 1-3: Local Funds Proposed Expenditure Budget, by Appropriation Titles**  
(Dollars in thousands)

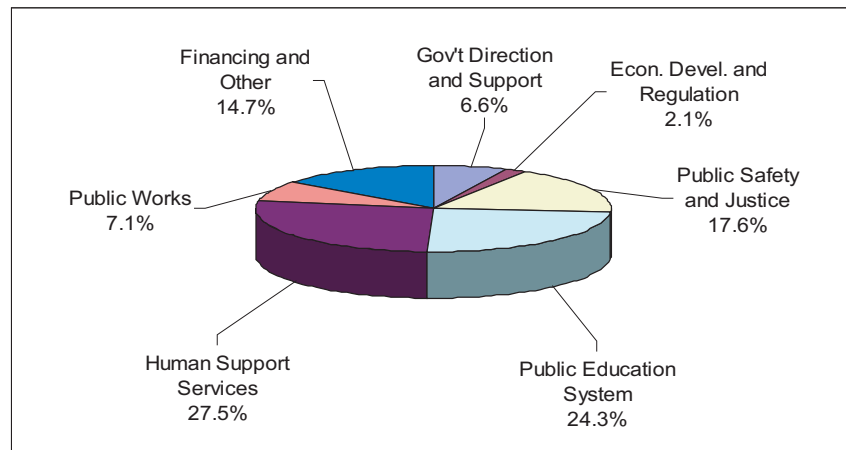
	FY 2006 Approved Budget <sup>1</sup>	FY 2006 Budget Adjustments for Human Services Needs <sup>2</sup>	FY 2006 Revised Budget	Less: FY 2006 Approved One-Time Expenditures	FY 2006 Revised Budget Less One-Time Expenditures	FY 2007 Baseline Budget	FY 2007 Mayor's Cuts and Reallocations	FY 2007 Mayor's Enhancements	FY 2007 One-Time Expenditures	FY 2007 Proposed Budget
Gov't Direction and Support	296,632	1,000	297,632	(2,663)	294,969	326,004	(13,961)	13,055	800	325,898
Econ. Devel. and Regulation	104,829	6,900	111,729	(13,525)	98,204	102,025	(15,855)	3,700	15,450	105,320
Public Safety and Justice	769,785	-	769,785	(200)	769,585	892,260	(26,530)	4,954	-	870,684
Public Education System	1,177,599	-	1,177,599	(26,946)	1,150,653	1,182,285	(25,240)	37,010	10,130	1,204,184
Human Support Services	1,276,326	13,100	1,289,426	(8,286)	1,281,140	1,406,506	(52,555)	2,835	4,725	1,361,511
Public Works	316,374	-	316,374	-	316,374	346,464	5,068	1,860	100	353,493
Financing and Other	1,016,216	-	1,016,216	(389,623)	626,593	695,388	(76,135)	26,628	83,787	729,669
<b>Total</b>	<b>4,957,761</b>	<b>21,000</b>	<b>4,978,761</b>	<b>(441,243)</b>	<b>4,537,517</b>	<b>4,950,934</b>	<b>(205,209)</b>	<b>90,042</b>	<b>114,992</b>	<b>4,950,759</b>

<sup>1</sup> Includes the Council adopted budget of \$4,949,471 adjusted for additional Congressional appro-

priations totaling \$8,290

<sup>2</sup> Pursuant to Title I, Subtitle D, Section 1016 of the FY 2006 Budget Support Act of 2005

Chart 1-1  
Total Gross Funds \$7.5 Billion



- \$9,682,101 in the Medical Assistance Administration program, which includes \$8,229,786 in the Disabilities and Aging activity and \$1,452,315 in the Children and Families activity to fund increases in utilization of Medicaid services for inpatient, outpatient, residential, and ICF/MR services;
  - \$6,131,529 in the Disabilities and Aging activity in the Medical Assistance Administration program to support expansion of the Elderly and Physically Disabled HIV/AIDS Medicaid waiver;
  - \$5,629,545 in the Disabilities and Aging activity in the Medical Assistance Administration for increases in the hourly rate of payment for Medicaid related services of Home Health and Personal Care Aides;
  - \$4,830,537 in fixed costs in various commodities. Details of these changes by commodity are provided in the fixed costs chapter addendum in the Special Studies book;
  - \$4,627,566 in the Managed Care activity in the Medical Assistance Administration due to a revision of reimbursement rates for the administrative component of managed care contracts for children with special needs previously claimed at 70 percent federal reimbursement but now can only be reimbursed at 50 percent;
  - \$4,200,000 in the MAA Support Services activity in the Medical Assistance Administration to fund an increase in the local match for Disproportionate Share Hospital (DSH) payments;
  - \$2,400,000 in the Adult Treatment Service activity in the Addiction Prevention and Recovery Administration to support the expansion of rehabilitation services;
  - \$2,000,000 in the Acute Detox and Residential Treatment and the Prevention and Youth Treatment activities in the Addiction Prevention and Recovery Administration to support the expansion of substance abuse treatment and prevention services; and
  - \$1,415,113 in the Disabilities and Aging activity in the Medical Assistance Administration for pharmaceutical inflationary increases.
- **Department of Youth Rehabilitation Services.** The proposed budget is \$66,555,366, an increase of \$7,465,138, or 12.6 percent over the FY 2006 approved budget of \$59,090,228. Major changes include:
- An increase of \$10,442,625 the full-year costs hiring of Youth Correctional Officers and support staff to comply with court-mandated staffing and security standards.

- **Child and Family Services.** The proposed budget is \$167,214,193, an increase of \$14,371,755 or 9.4 percent over the FY 2006 approved budget of \$152,843,159. Major changes include:

- \$3,700,000 in personal services to fund staff salaries and benefits at FY 2007 levels in the Child Welfare program; and
- \$2,000,000 for the Grandparents' Act in the Adoption and Guardianship program.
- \$4,000 for federal title IV-E reimbursement.

- **Department of Human Services.** The proposed budget is \$253,829,391, an increase of \$29,396,489, or 13.1 percent over the FY 2006 approved budget of \$224,432,902. Major changes include:

- A transfer of \$3,900,000 from Local Funds to Special Purpose Funds for the establishment of a new fund to establish housing for persons who are currently homeless or otherwise in need of assistance; and
- An increase of \$11,591,984 for service enhancements for clients of the Income Maintenance, Family Services, Mental Retardation and Developmental Disabilities

Administration and Rehabilitation Services programs.

- **Department of Mental Health.** The proposed budget is \$175,867,148, representing a net decrease of \$3,900,027 or 2.2 percent from the FY 2006 approved budget of \$179,767,175. Major changes include:

- An increase of \$14,914,093 reflecting a redirection of funding from contractual services to subsidies to separate funding for Mental Health Rehabilitation Services and Residential Treatment Services;
- An increase of \$1,690,664 in personal services, including salaries and fringe benefits, to align the budget to actual projected costs for FY 2007;
- A decrease of \$2,535,000 for one-time funding provided in FY 2006; and
- A decrease of \$16,097,713 reflecting the reduction and reallocation of funds for community contract provided services.

## Public Works

The FY 2007 proposed budget for the public works appropriation title is \$353,492,849, an increase of \$37,119,113 or 11.7 percent over the FY 2006 approved budget of \$316,373,736.

Local Funds Proposed Expenditure Budget, by Comptroller Source Group  
(dollars in thousands)

	FY 2005 Actual Budget	FY 2006 Approved Budget	FY 2007 Proposed Budget	Change	Percent Change
Continuing Full Time Pay	1,142,899	1,303,451	1,365,435	61,983	4.8%
Regular Pay - Other	152,318	101,100	102,419	1,319	1.3%
Additional Gross Pay	38,389	36,701	39,307	2,605	7.1%
Fringe Benefits	183,742	211,766	228,703	16,936	8.0%
Overtime Pay	55,305	34,777	36,837	2,060	5.9%
<i>Personal Services</i>	<i>1,572,653</i>	<i>1,687,796</i>	<i>1,772,700</i>	<i>84,904</i>	<i>5.0%</i>
Supplies and Materials	36,255	50,188	46,481	(3,708)	-7.4%
Energy	70,734	60,674	81,877	21,204	34.9%
Telephone, Telegraph, Telegram, Etc.	30,512	29,803	32,370	2,567	8.6%
Rentals - Lands and Structures	76,415	81,672	87,061	5,389	6.6%
Janitorial Services	4,496	5,053	4,436	(617)	-12.2%
Security Services	21,289	21,987	28,797	6,810	31.0%
Occupancy Fixed Costs	5,981	9,752	11,854	2,102	21.6%
Other Services and Charges	132,571	147,238	146,736	(502)	-0.3%
Contractual Services - Other	379,037	355,334	347,481	(7,853)	-2.2%
Subsidies and Transfers	1,450,576	2,004,908	1,814,164	(190,743)	-9.5%
Equipment and Equipment Rental	41,371	47,430	47,859	429	0.9%
Debt Service	385,246	455,926	528,944	73,018	16.0%
<i>Nonpersonal Services</i>	<i>2,634,483</i>	<i>3,269,965</i>	<i>3,178,060</i>	<i>(91,905)</i>	<i>-2.8%</i>
<b>Total</b>	<b>4,207,136</b>	<b>4,957,761</b>	<b>4,950,760</b>	<b>(7,001)</b>	<b>-0.1%</b>

This appropriation title accounts for 7.1 percent of the total local funds proposed budget. Major agencies contributing to the increase in this appropriation title are:

- **Washington Metropolitan Area Transit Authority (WMATA).** The FY 2007 proposed budget is \$198,487,000, an increase of \$10,854,826 or 5.6 percent over the FY 2006 budget of \$187,632,174. Over the next three years, the subsidy is projected to increase at a 5 percent annual rate. Major changes include:

- Higher Metro Matters program debt service accounts for \$5.8 million of the budget increase. Metro Matters is a \$1.5 billion, six-year capital program to fund the replacement, repair, and maintenance of aging system infrastructure. The program also covers the acquisition of 120 new railcars and 185 new buses;
- An increase of in the base subsidy by \$4.1 million due to higher personnel, electricity, diesel fuel and systems maintenance costs; and
- An increase of \$1.53 million for bus expansion and overcrowding relief on selected bus routes.

- **Department of Public Works.** The proposed budget is \$106,343,031, an increase of \$14,772,026 or 16.1 percent from the FY 2006 approved budget of \$91,571,005. Major changes include:

- \$5,548,441 for Personal Services to cover cost of pay raises and step increase across the agency, including a \$2,237,512 increase in the Parking Services program and \$3,467,961 in the Sanitation Services programs;
- \$1,002,300 for fixed costs, including energy and fuel costs associated with the facility maintenance and fleet service activity;
- \$6,162,396 in the Sanitation Services program for recycling and solid waste collection; and
- \$2,564,274 in Contractual Services, primarily for trash hauling and disposal in the Sanitation Services program.

- **Department of Motor Vehicles.** The proposed budget is \$33,407,829, a net increase of \$2,338,487 or 7.5 percent over the FY 2006 approved budget of \$31,069,342. The net change includes:

- \$2.1 million and 13 FTEs for Destiny IT system programming support. In FY 2007, this item was provided by contractors and supported with Internal Registration Program, Special Purpose Revenue (SPR) fund balance. SPR funding is not sufficient in FY 2007 to support this activity;
- \$660,000 and 8 FTEs to restore previously cut funding to provide in-person hearings; and
- A decrease of \$527,465 to lowered fixed costs primarily from DMV's relocation from leased space at 65 K Street NE to District owned 95 M Street SW.

- **Department of the Environment.** This new department was created to consolidate into a single agency the administration and oversight of environmental laws, regulations and programs. Funding for this new agency is being transferred from the Department of Health for the Environmental Health Administration and vector control, the Department of Public Works for recycling policy, and the Department of Transportation for tree policy. The proposed budget is \$8,824,682.

## Financing and Other

The FY 2007 proposed budget for the Financing and Other appropriation title is \$729,668,536 a decrease of 286,547,576 or 28.2 percent from the FY 2006 approved budget of \$1,016,216,112. This appropriation title accounts for 14.7 percent of the total local funds proposed budget.

The major changes are a reduction of \$181 million in Pay Go Capital and \$133 million for the District Retiree Health Benefit Contribution, which is partially offset by an increase of \$37 million in debt service.



## **Proposed Local Funds Expenditure Budget by Category**

To provide context as to the types of expenses for a particular program, information is presented by category. One of the District's largest categories is personal services, totaling \$1.773 billion and representing 35.8 percent of the Local funds proposed budget. This funding will support 26,090 Local full-time equivalent (FTE) positions, a decrease of 81 FTEs, or 0.3 percent from FY 2006 (see Table 1-4). Including all fringe benefits, but excluding extra compensation like overtime and shift differential, the average Local FTE for FY 2006 will cost \$60,339. The District's FY 2007 gross funds proposed budget includes 34,519 FTEs, a decrease of 116 FTEs or 0.4 percent from FY 2006.

## **Fixed Costs**

A major cost driver in the FY 2007 local funds proposed budget is fixed costs. Fixed cost estimates for FY 2006 and FY 2007 are \$241 million and \$297 million, respectively (Table 1-6). Rent is expected to be the fastest growing component (Table 1-7). The rapid growth of the real estate market in the D.C. metropolitan area, for example, has driven up the cost of rental property, especially in the already high rent business district. But other forces are at work, too. The deregulation of power costs pushed up the cost of electricity. These factors and others have affected the District's ability to develop accurate estimates for some of its fixed costs, often leading to spending pressures in agency budgets.

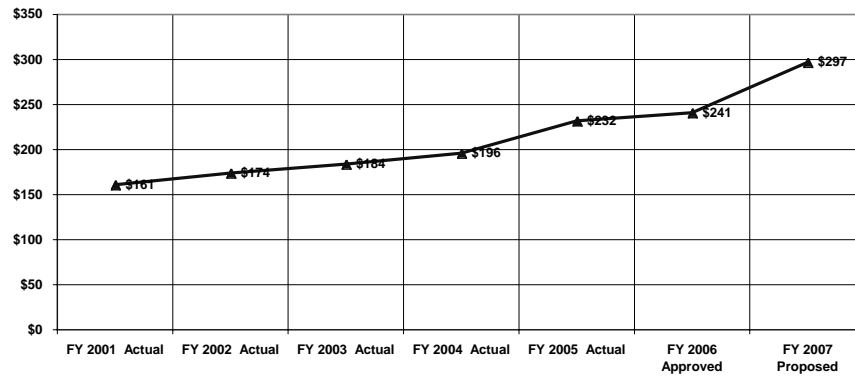
Given that the District must develop its forecast at least a year before agencies execute their budgets, assumptions must be made about the factors that will affect the estimates.

Controlling fixed costs is an important way to save money so that other, more necessary services can be delivered to District residents without increasing taxes. Efforts toward this end are under way throughout the District. Market-driven deviations from cost estimates always will occur, but the District's mission is to minimize their impact by first providing well-based estimates, then delivering the service with maximum efficiency and minimum waste.

Expenditures for fixed costs for FY 2005 were \$232 million and the FY 2006 approved budget is \$241 million. FY 2007 proposed Fixed cost expenditures are estimated to increase by \$53.7 million, or 22 percent over the FY 2006 approved budget of \$241.4 million, the highest year-over-year increase in the previous four years. While growth is anticipated in several fixed cost commodities, the largest area of growth is in rent, which accounts for \$18.8 million of the \$53.7 million increase over the FY 2006 approved fixed cost budget.

Detailed information on agency fixed costs by commodity is provided in the Fixed Costs chapter addendum of the Special Studies volume of the FY 2007 Proposed Budget and Financial Plan.

**Growth of Fixed Costs FY 2001 to FY 2007**



These numbers only reflect fixed costs managed by OPM, OCTO, and DPW, they do not include information on agency managed fixed costs.

**Table 1-7**  
**Growth of Fixed Costs by Commodity, FY 2003 - FY 2007**  
(\$ thousands)

Commodity	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Rent	75,240	83,660	90,540	88,055	106,886
Electricity	23,314	24,986	30,502	25,068	31,912
Telephony	25,369	24,344	29,537	26,515	32,300
Natural Gas	16,296	16,518	21,630	23,409	37,837
Security	21,258	24,430	25,259	23,571	32,894
Water	8,099	7,223	7,274	9,413	8,938
Fuel	6,608	6,236	8,282	6,302	2,454
Janitorial	4,343	4,034	4,771	5,305	5,021
Occupancy	2,318	3,728	9,436	10,587	12,686
Steam	910	1,067	1,096	874	1,562
Postage	543	548	646	793	902
Fleet	7,504	8,017	18,669	21,470	23,617
Grand Total	191,802	204,792	247,642	241,361	297,009

**Water amount does not include Fire Hydrant Fee**

**Data Source: Office of Finance and Resource Management and Department of Public Works**

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# Financial Plan and Fund Structure

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Revenue growth in the District of Columbia led to a large surplus in FY 2005, and prospects are good for continued growth that will ensure a balanced financial plan in coming years. The FY 2007 Proposed Budget and Financial Plan utilizes a portion of these increased General Fund revenues to finance new initiatives, transfer funds to pay for capital projects, and make a down payment now to reduce large future liabilities.

FY 2005 marked the District's ninth consecutive balanced budget, with a large surplus and an unqualified ("clean") audit opinion. The year ended with General Fund revenues exceeding expenditures by \$369.7 million and a fund balance of \$1.6 billion.

The District's ratings on its debt continue to improve. Wall Street bond rating agencies have recognized the District's improved financial status by upgrading the ratings on its debt. For the first time, three major rating agencies--Standard & Poor's, Moody's, and Fitch--now rate the District's debt in the A range. Their actions represent a vote of confidence for the District's financial prospects.

While recent years' operating budgets have ended with healthy surpluses, the District still finds it difficult to meet the challenges of providing services for the needs of a state, county, and city population. This difficulty is perhaps most evident in the capital budget, as borrowing constraints and a shortfall in the capital fund balance combine to limit capital spending below what

the District would desire. The proposed budget transfers some of the accumulated balance in the General Fund to the capital fund.

In addition, future costs can always upset a financial plan that has a small margin of surplus. One known cost that will affect the District by FY 2008 is the need to recognize as a liability the future health insurance costs of retired District workers. The District will use another portion of the accumulated fund balance to offset some of these costs. Without such a down payment now, when funds are available, the cost in 2008 will be even higher.

This chapter's primary focus is the financial plan for the General Fund operating budget, which displays the past year, the current year, the proposed FY 2007 revenue and expenditure budget, and projections for the next three years. It then describes the District's fund structure, including funds outside the operating budget.

## Revenues and Expenditures: Past and Future

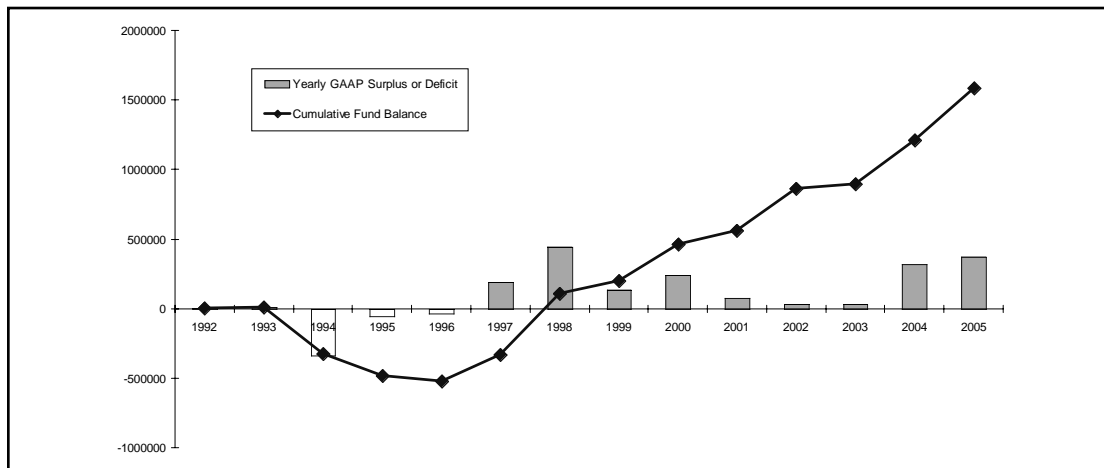
The District's General Fund has completed its turnaround from its deficit position in the mid-1990s (see figure 3-1). After three years of deficits ending in 1996, the District posted large surpluses in 1997 and 1998, with its fund balance becoming positive again in 1998. Seven additional surpluses have followed.

Revenue and operating expenditure trends are discussed in more detail in the respective chapters

includes a financial plan for the Federal and Private Resources Fund, table 2-5. Finally, other funds that capture financial activity related to the District are discussed after the presentation of the financial plan.

The General Fund financial plan covers six fiscal years:

- FY 2005 financial data from the CAFR;
- FY 2006 original council budget and revised budget;
- FY 2007 proposed budget, the topic of the remainder of this volume and Volumes 2



included in the Budget Highlights. The financial plan shows fairly small surpluses, as a percentage of the District's budget, for the next three years.

## Understanding the Financial Plan

The financial plan is a synopsis of past, present, and future activity related to the General Special Purpose Revenue funds—certain fees collected by and dedicated to agencies for specific purposes through District legislation. Along with the full financial plan for the General Fund (table 2-2), which includes fund balance and reserve fund projections, shorter summaries of the Local and Special Purpose Revenue components of the plan are included.

The operating budget, the primary focus of this budget volume and Volumes 2 through 4, includes the General Fund and the Federal and Private Resources Fund. The sum of activity related to the General Fund and the Federal and Private Resources Fund is sometimes called the District's "Gross Funds" budget. This chapter

through 4; and

- FY 2008 through FY 2010 projections of revenues and expenditures.

The Chief Financial Officer certifies revenues periodically, and details on revenue trends and future estimates are included in the Revenues chapter of this volume. The financial plan includes the use of both current-year revenues and fund balance—that is, accumulated funds from prior years—for one-time purposes. The plan also displays the effects of proposed revenue initiatives. Expenditures are projected based in part on past trends, and more details are in the Operating Expenditures chapter of this volume. The financial plan also includes assumptions about the use of reserves and other means of financing.

The District uses the multi-year financial plan as a working tool throughout the fiscal year to monitor the impact of legislative proposals, programmatic initiatives, and economic changes on the District's near-term fiscal outlook. The plan is primarily a budget document, but it has

aspects of an accounting document and a cash flow document. It includes projections of the effects of budget decisions on the fund balance, and it considers the maintenance of certain required reserve funds.

Below are line-item descriptions of the financial plan elements. For explanatory purposes, the plan is broken into four sections:

- Revenues;
- Expenditures;
- Fund balance, Generally Accepted Accounting Principles (GAAP) adjustments, and transfers; and
- composition of fund balance.

The numbering scheme noted below refers to the line numbers on Tables 2-1, 2-2 and 2-3.

## Revenues

1. Taxes. Includes property, sales, income, and other taxes, which are projected by the Office of Revenue Analysis. See the Revenue chapter for details.

2. General Purpose Non-Tax Revenues. Includes revenue from licenses and permits, fines, charges for services, and other revenue sources that are not dedicated to particular purposes. See the Revenue chapter for details.

3. Special Purpose (O-Type) Revenues. Special Purpose Revenues are O-type or Other revenues from charges and fees that are collected and spent by the collecting agency. This pool is distinct from the general purpose non-tax revenue category above.

4. Transfer from Lottery. Reflects the portion of D.C. Lottery and Charitable Games Control Board revenue that is transferred to the District's general fund.

5. General Fund Revenues. The sum of lines 1 through 4.

6. Gross Sales Tax Dedicated for School Modernization. Starting in FY 2007, Sales Tax, that has not previously been dedicated, shall be deposited into the school modernization fund.

8. Bond Proceeds for Issuance Costs. The cost of issuing General Obligation bonds is included as revenue, since that portion of the entire issuance is retained in the General Fund rather than going to the capital fund.

9. Payment-in-Lieu-of-Taxes from WASA. The Water and Sewer Authority (WASA) makes payment-in-lieu-of-taxes (PILOT) to the District. The revenues are recorded on a gross basis (related expenditures are included in the expenditure section). The expenditures were recorded in the Office of Finance and Resource Management in FY 2006 and will be recorded in the Department of Public Works in FY 2007.

10. Transfer from Federal and Private Resources. Reflects the movement of federal grant dollars into Local funds to pay for certain indirect costs.

11. Transfer from Special Purpose Funds for Debt Service. Revenue from Bus Shelter Advertisements and the Housing Production Trust fund will be used to securitize dedicated revenues to cover bonded debt.

12. Fund Balance Use. Includes funds that fell to the fund balance in a prior year but which the District is proposing to use in the current year. In FY 2006, this includes Local fund balance that finances transfers to other District funds (on lines 24 through 26), certain one-time expenditures, and Special Purpose Revenues that some agencies plan to spend from accumulated fund balances.

13. Transfer from Local to Special Purpose Revenues. Funds are proposed to be transferred from Local to Special Purpose Revenues. In the General Fund plan, this line nets to zero, but the amount can be seen in the detail tables (tables 2-2 and 2-3).

14. Transfer to Capital. Parking fees are proposed to be transferred to the Capital fund, representing a revenue loss to the General Fund.

15. Revenue Proposals/One-Time Revenues. Reflects one-time revenues in FY 2006 and pro-

posed revenue changes that are detailed in the Revenue chapter of this volume.

16. Total General Fund Resources. The sum of lines 7 through 14.

#### Expenditures

18. - 24. Agency Expenditures. These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on growth assumptions that are discussed in the Operating Expenditures chapter. in the Executive Summary Volume.

25 Financing and Other. Includes Repayment of Debt, Short-Term Borrowings, Certificate of Participation, and other items in this appropriation title that are not specifically shown in lines 21 and 22.

26. Cash Reserve (Budgeted Contingency). The District is required to budget for a cash reserve of \$50 million each year, to provide budgetary stability in the absence of the budgeted reserve, which was eliminated after FY 2003.

27 Lease Purchase Costs. Additional costs in FYs 2008, 2009 and 2010 for lease purchase arrangements associated with development of new government facilities, including hospitals.

28. Subtotal, Operating Expenditures. The sum of lines 19 through 27.

29. Paygo Capital. A transfer to the capital fund to increase capital financing for FY 2007.

30. Transfer to Trust Fund for Post-Employment Benefits. A transfer in FY 2007 to reduce the District's accumulated liability for health insurance costs for retirees. These costs must be recognized beginning in FY 2008.

31. General Fund Contribution to Capital Fund Balance. A transfer to reduce the accumulated shortfall in the capital fund.

32. Total General Fund Expenditures. The sum of lines 28 through 31.

33. Operating Margin, Budget Basis. The difference between Total General Fund Resources and Expenditures (lines 16 and 32).

### **Fund Balance, GAAP Adjustments and Transfers**

34. Beginning General Fund Balance. Shows the accumulated fund balance at the beginning of the fiscal year, which is identical to the end of year fund balance for the previous fiscal year.

36. Operating Margin, Budget Basis. Restatement of line 33.

37. Projected GAAP Adjustments (Net). GAAP adjustments are year-end adjustments necessary to properly report the ending fund balance on an accounting basis by converting budgeted activity to resources earned and used in the current fiscal year. This includes items such as fund balance released from restrictions, current year purchases used to build up ending inventory levels, and the current year net consumption of inventories purchased in prior years.

38. Deposits into Reserve Funds (From Fund Balance). Funds will be moved from the fund balance into the Emergency and Contingency Reserve Funds each year. See the discussion on page 3-8.

39. Deposits into Reserve Funds (To Cash Reserves). Shows that funds deposited into the reserve funds remain in the General Fund balance.

40. Fund Balance Use. The amount of prior-year fund balance that is used in the current year (line 12) must be subtracted when calculating the current year-end fund balance.

41. Ending General Fund Balance. Shows the sum of the beginning fund balance, the budget-basis operating margin, and GAAP and other adjustments (lines 35 through 40). exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

## Fund Balance Overview

The fund balance reflects the cumulative earnings of the District. At the end of each fiscal year, fund balance adjustments are made to show the effects of the current year's financial transactions. Year-end adjustments are made so that the financial statements are presented in accordance with GAAP. Implementing accounting pronouncement 34 of the Government Accounting Standards Board (GASB 34) resulted in a significant restatement of the FY 2002 fund balance at October 1, 2001.

The general fund balance has two major components: (1) reserved and (2) unreserved. The unreserved fund balance is apportioned further into designated and undesignated components. Figure 3-2 shows the components of the District's General Fund balance.

## Reserved Fund Balance

To use reserved fund balance items, the District must have approval from the external entity that has imposed the restriction. The reserved balance has been dominated historically by bond escrow, that is, accumulated cash that the District is required to maintain for debt service payments in the coming year. More recently, the reserved balance has been dominated by the congressionally mandated Emergency and Contingency (cash) Reserves.

## Unreserved Fund Balance

**Unreserved but Designated Fund Balance.** The designated component of the fund balance contains items that have been purpose restricted by the legislative or executive branch of the District government.

**Unreserved and Undesignated Fund Balance.** Those items that fall into this category have neither internal nor external claims against them. Unlike most large cities, the District is prohibited from accessing these funds.

Comprising elements of budgeting and accounting, the financial plan reflects GAAP adjustments as well as transfers between fund balance and cash reserves that do not affect the budget basis operating margin. Hence, these items are sometimes referred to as "below-the-line" adjustments because they are outside of the bud-

get but impact the District's financial statements.

## Composition of Fund Balance

44. **Emergency Cash Reserve Balance** (2 percent formerly 4 percent). The District was required to establish an Emergency Reserve, by the end of FY 2004, equal to four percent of the District's Local expenditures. The requirement was satisfied in FY 2002. In FY 2005, the requirement was changed to be two percent, and the base for the calculation was also changed.

45. **Contingency Cash Reserve Balance** (4 percent, formerly 3 percent). The District was required to establish a Contingency Reserve equal, by the end of FY 2007, to three percent of the District's Local expenditures. The requirement was satisfied in FY 2002. In FY 2005, the requirement was changed to be four percent, and the base for the calculation was also changed.

46. **Fund Balance not in Emergency and Contingency Reserves.** Reflects the portion of the fund balance that is not composed of the two cash reserve funds. This line item does not reflect available funds, because there are several other restrictions on the District's fund balance in addition to cash reserve balances, such as bond escrow. Fund balance restrictions are addressed thoroughly in the District's Comprehensive Annual Financial Report.

47. **Ending General Fund Balance.** Reflects the sum of lines 44 through 46, representing the various components of the fund balance.

## Discussion: Filling Emergency and Contingency Reserves

The District was required to fill the Emergency Reserve at four percent of its local budget by the end of FY 2004 and to fill the Contingency Reserve at three percent by the end of FY 2007. In FY 2002, the District filled both funds to the combined level of seven percent, or \$248.7 million. This seven-percent level was maintained during FYs 2003 and 2004.

In its FY 2005 Appropriations Act, the District's requirement was lowered to six percent, and the calculation was changed to be based on a

past year rather than the current. Congress made this change in part to recognize the District's success in restoring its fiscal balance. The District was allowed to withdraw part of the excess funds, that is, convert them to undesignated fund balance. However, it was not allowed to withdraw all of the excess above six percent of the new target.

### Fund Structure

The General Fund, as discussed above, is one of many funds that capture the District's financial activities. Other funds and reporting entities, both governmental and non-governmental, are included in the District's CAFR and are discussed below. The primary categories are:

- Governmental Funds,
- Proprietary Funds,
- Fiduciary Funds, and
- Component Units.

In FY 2007, the District is publishing six budget volumes, four covering the operating budget and two covering the capital budget. The operating budget includes revenues and expenditures in the General Fund and the Federal and Private Resources Fund. These operating budget funds, plus the capital funds and the non-major funds, are considered governmental funds. In addition, the District's finances reflect a number of other entities that are considered non-governmental, including Proprietary Funds, Fiduciary Funds, and Component Units, some of which are discussed in the operating budget volumes.

### Governmental Funds

Governmental Funds consist of two operating, two capital, and two special revenue funds.

### Operating Funds

The District's operating budget is the primary focus of this budget volume and Volumes 2 through 4. The operating budget has a variety of funding sources and has two components: the General Fund and the Federal and Private Resources Fund.

#### General Fund:

Local Funds are the District's primary source of revenue.

- All the District's tax receipts, the larger of which are income taxes, sales taxes, and property taxes, go into Local Funds.
- In addition, certain non-tax revenues (those fines, fees, and miscellaneous revenues not dedicated for a particular agency's use) are part of Local Fund.
- Finally, an annual transfer from the Lottery goes into Local Funds.

Special Purpose Revenues are collected by District agencies and, by law, are dedicated to support the functions those agencies perform. Examples include certain fees and permit charges that the public pays for and whose proceeds are used by the agency to carry out operations in that same area. Some agencies retain unused revenues collected in a given fiscal year in the dedicated portion of the Fund Balance. They are allowed to spend those revenues, if they receive appropriation authority to do so, in a succeeding year.

#### *Federal and Private Resources Fund:*

- Federal Grants are grants the District receives from federal agencies, including block grants, formula grants, certain entitlements, and competitive grants
- Federal Payments are direct appropriations from the Congress to the District, usually to a particular District agency for a particular purpose.
- Federal Medicaid Payments are the federal share of the District's Medicaid costs. Generally, the federal government pays 70 percent of the cost of Medicaid while the District pays 30 percent, although the proportions differ in certain circumstances.
- Private Grants are grants the District receives from non-Federal sources. This category includes private donations.

Table 2-4 displays a summary financial plan for the Federal and Private Resources Fund. The line items are as follows:

**F1. Federal Grants.** Federal grant awards received by District agencies.

**F2. Federal Payment/Contribution.** Funding contributed by the federal government for specif-



ic projects. These funds are restricted in use by the federal government.

F3. **Private Grants.** Revenues received from private grants.

F4. **Federal and Private Resources.**

F5. **Fund Balance Use.** Reflects amounts previously contained in the fund balance that have been released for use in the current year.

F6. **Transfer to General Fund.** Funds used to pay for indirect costs, as shown on line 8 of the General Fund financial plan.

F7. **Total Federal and Private Resources.**

F10. - F16. **Agency Expenditures.** These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on growth assumptions that are discussed in the Operating Expenditures chapter.

F17. **Total Federal and Private Fund Expenditures.**

F18. **Operating Margin, Budget Basis.** This line provides the difference between Total Federal and Private Resources and Total Federal and Private Expenditures.

F20. - F24. **Fund Balance Calculations.**

### *A Note on Intra-District Budgets*

Intra-District budgets represent agreements between two agencies whereby one agency purchases services from the other. The buying agency spends its own budget (Local, Special Purpose Revenue, Federal, or Private). The selling agency receives this expenditure as intra-District revenue, establishes intra-District budget authority, and spends against that authority to provide the service.

An agency's total "gross funds" budget includes its intra-District budget authority. Because such arrangements appear as expenditures twice, once in each agency, the intra-District totals are excluded from the District-wide calculations of the total "gross funds" bud-

get. They also are excluded from the CAFR totals at the end of the year.

## **Capital Funds**

The District's Capital Budget is the focus of the other two budget volumes. The Capital Budget has three components: the General Capital Improvements Fund, the Highway Trust Fund and the Baseball Capital Projects Fund.

- The General Capital Improvements Fund accounts for all capital projects activity not in the Highway Trust Fund and the Baseball Capital Projects Fund.
- The Highway Trust Fund accounts for capital projects financed entirely or partly by transfers of taxes, fees, capital grants, and other revenue that is dedicated to highway projects.
- The Baseball Project Fund is used to account for financial resources used for the construction of a new baseball stadium.

This budget volume is produced in June for the Congressional budget submission.

## **Special Revenue Funds**

Special Revenue Funds account for specific revenue that is legally restricted to expenditures for particular purposes. The District currently has three such funds:

- The Tobacco Settlement Financing Program accounts for activities relating to the tobacco litigation settlement.
- The Tax Increment Financing Program accounts for activities relating to tax increment financing development initiatives.
- The Baseball Project Fund is used to account for the proceeds of baseball related revenue sources that are legally restricted to expenditures for baseball project purposes.

## **Proprietary Funds**

Proprietary Funds are District units that charge customers for the services provided, whether to outside customers or to other units of the District. The District has three Proprietary Funds:

- D.C. Lottery and Charitable Games Board, which not only operates and is financed like a private business where net income is key to sound management, but also can finance the costs of its goods and services provided to the

public on a continuing basis primarily through user charges. The Lottery accounts for revenue from lotteries and daily numbers games all operated by the District and from licenses to conduct charitable games. The Lottery exists solely to transfer its profits to help finance the General Fund.

- Unemployment Compensation Fund, which accounts for funds used to pay benefits to unemployed former employees of the District, federal government, and private employers within the District. The fund is administered by the Department of Employment Services.
- Non-Major Proprietary Fund, which includes three entities grouped as Nursing Home Services:
- Washington Center for Aging Services
- Washington Center for Aging Services Center Care
- JB Johnson Nursing Center.

### **Fiduciary Funds**

Fiduciary Funds account for assets held by the District in a trustee or agency capacity. These assets cannot be used to support the District's programs. The District's Fiduciary Funds are:

- The Pension Trust Funds, which account for resources used for retirement annuity payments for police officers, firefighters, public school teachers and their survivors. Resources are contributed by employees and by the District and federal governments at amounts determined by an annual actuarial study. The funds are administered by a 13-member Retirement Board. The administrative costs of the board are accounted for in the funds.
- The Private Purpose Trust Funds, which account for the District's sponsored college tuition savings plan.
- The Agency funds, which account for refundable deposits required of various licenses, monies held in escrow as an agent for individuals, private organizations or other governments.

### **Component Units**

Component Units are legally separate organizations for which the District is financially accountable because their governing bodies are appointed

by the Mayor, with the consent of the unit Council, or other District officials. Budgets for these entities are presented in section H, Enterprise and Other Funds, of Volume 2. The District has six Component Units:

- D.C. Water and Sewer Authority, which accounts for the provision of water and sewer services to the District, and specific counties in Maryland and northern Virginia.
- Washington Convention Center Authority, which accounts for maintaining and operating the Washington Convention Center for local public shows, civic events, and other activities.
- Sports and Entertainment Commission, which accounts for maintaining and operating the National Guard Armory for nonmilitary events and the Robert F. Kennedy Memorial Stadium and promoting the District as a sporting event site.
- Housing Finance Agency, which accounts for cash received from public and private sources used to alleviate the shortage of housing through greater supply and less expensive mortgage and construction loans.
- University of the District of Columbia (UDC), which accounts for resources received and used by the University of the District of Columbia. The contains four separate fund groups: Current Funds, Loan Fund, Endowment Fund, and Plant Funds. A budget is prepared for only the Current Funds. This budget is in the Enterprise and Other Funds section; the General Fund includes only the subsidy from Local funds to the University.
- Anacostia Waterfront Corporation (AWC), which is a public entity charged with leading the revitalization of the District's Anacostia Waterfront. The AWC will coordinate the implementation of a multi-year plan for land redevelopment. Additionally, the AWC will help coordinate efforts to clean up the river.

The District established the District of Columbia Tobacco Settlement Financing Corporation (the "Tobacco Corporation") as a special purpose, independent instrumentality of the District government. The Tobacco Corporation is a blended component unit because it provides services exclusively to the District.

Table 3-1

**FY 2007 - FY 2010 Proposed Budget and Financial Plan: General Fund**

(\$ thousands)

	<b>FY 2005</b>	<b>FY 2006</b>	<b>FY 2006</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
<b>Revenues</b>	<b>Actual</b>	<b>Approved</b>	<b>Adjusted</b>	<b>Proposed</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
1 Taxes	4,052,087	4,101,533	4,110,172	4,341,981	4,613,778	4,892,984	5,179,039
2 General Purpose Non-Tax Revenues	352,427	340,522	319,847	323,575	318,077	320,958	317,518
3 Special Purpose (O-type) Revenues	311,789	264,254	347,538	372,841	373,534	372,954	386,829
4 Transfer from Lottery	71,450	73,100	72,000	72,100	72,100	72,100	72,100
5 <b>General Fund Revenues</b>	<b>4,787,753</b>	<b>4,779,409</b>	<b>4,849,557</b>	<b>5,110,497</b>	<b>5,377,489</b>	<b>5,658,996</b>	<b>5,955,486</b>
6 Gross Sales Tax Dedicated for School Modernization	0	0	0	(100,000)	(106,000)	(112,360)	(119,102)
7 <b>Adjusted General Fund Revenues</b>	<b>4,787,753</b>	<b>4,779,409</b>	<b>4,849,557</b>	<b>5,010,497</b>	<b>5,271,489</b>	<b>5,546,636</b>	<b>5,836,384</b>
8 Bond Proceeds for Issuance Costs	4,935	40,000	40,000	30,000	30,000	20,000	20,000
9 Payment-in-Lieu-of-Taxes from WASA	0	1,576	1,576	1,551	0	0	0
10 Transfer from Federal and Private Resources	0	6,502	6,502	6,502	6,646	6,807	6,979
11 Transfer from Special Purpose Funds for Debt Service	0	0	0	8,091	14,526	15,097	15,465
12 Fund Balance Use	80,781	591,642	607,615	326,189	19,968	0	0
13 Transfer to Special Purpose Revenues	0	0	0	0	0	0	0
14 Transfer to Capital	0	(30,000)	0	0	0	0	0
15 Revenue Proposals/One-time Revenue	0	8,729	0	114,700	246,405	215,344	169,286
16 <b>Total General Fund Resources</b>	<b>4,873,469</b>	<b>5,397,858</b>	<b>5,505,250</b>	<b>5,497,530</b>	<b>5,589,034</b>	<b>5,803,884</b>	<b>6,048,114</b>
17							
18 <b>Expenditures (by Appropriation Title)</b>							
19 Governmental Direction and Support	294,778	340,859	341,858	380,492	366,995	377,019	388,915
20 Economic Development and Regulation	193,456	328,156	347,556	339,524	313,718	320,934	335,286
21 Public Safety and Justice	805,471	827,037	829,687	940,976	957,159	986,518	1,018,881
22 Public Education System	1,082,177	1,189,302	1,179,939	1,224,534	1,247,351	1,279,254	1,312,659
23 Human Support Services	1,258,537	1,307,530	1,340,581	1,419,912	1,471,831	1,544,764	1,624,269
24 Public Works	328,997	366,101	366,101	408,107	407,465	422,309	439,338
25 Financing and Other	421,070	561,276	532,857	573,032	645,695	685,065	733,145
26 Cash Reserve (Budgeted Contingency)	0	50,000	48,400	50,000	50,000	50,000	50,000
27 Lease Purchase Costs	22,058	27,441	27,441	43,955	46,320	49,320	51,320
28 <b>Subtotal, Operating Expenditures</b>	<b>4,406,544</b>	<b>4,997,702</b>	<b>5,014,420</b>	<b>5,380,532</b>	<b>5,506,534</b>	<b>5,715,183</b>	<b>5,953,813</b>
29 Paygo Capital	20,550	207,083	208,523	81,487	0	0	0
30 Transfer to Trust Fund for Post-Employment Benefits	0	138,000	138,000	4,700	81,000	86,200	91,800
31 General Fund Contribution to Capital Fund Balance	0	53,800	53,800	0	0	0	0
32 <b>Total General Fund Expenditures</b>	<b>4,427,094</b>	<b>5,396,585</b>	<b>5,414,743</b>	<b>5,466,719</b>	<b>5,587,534</b>	<b>5,801,383</b>	<b>6,045,613</b>
33 <b>Operating Margin, Budget Basis</b>	<b>446,375</b>	<b>1,273</b>	<b>90,507</b>	<b>30,811</b>	<b>1,500</b>	<b>2,500</b>	<b>2,500</b>
34							
35 <b>Beginning General Fund Balance</b>	<b>1,215,015</b>	<b>1,584,683</b>	<b>1,584,683</b>	<b>1,047,575</b>	<b>732,197</b>	<b>693,729</b>	<b>676,230</b>
36 Operating Margin, Budget Basis	446,375	1,273	90,507	30,811	1,500	2,500	2,500
37 Projected GAAP Adjustments (Net)	4,074	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
38 Deposits into Reserve Funds (From Fund Balance)	0	0	0	0	(31,150)	0	0
39 Deposits into Reserve Funds (To Cash Reserves)	0	0	0	0	31,150	0	0
40 Fund Balance Use	(80,781)	(591,642)	(607,615)	(326,189)	(19,968)	0	0
41 <b>Ending General Fund Balance</b>	<b>1,584,683</b>	<b>974,314</b>	<b>1,047,575</b>	<b>732,197</b>	<b>693,729</b>	<b>676,230</b>	<b>658,730</b>
42							
43 <b>Composition of Fund Balance</b>							
44 Emergency Cash Reserve Balance (2%),	70,532	84,622	70,532	73,001	100,879	101,142	102,294
45 Contingency Cash Reserve Balance (4%)	182,905	169,244	182,905	189,307	201,759	202,284	204,588
46 Fund Balance not in Emergency & Contingency Reserves	1,331,246	720,448	794,138	469,890	391,091	372,803	351,847
47 <b>Ending General Fund Balance (Line 37)</b>	<b>1,584,683</b>	<b>974,314</b>	<b>1,047,575</b>	<b>732,197</b>	<b>693,729</b>	<b>676,230</b>	<b>658,730</b>

Table 3 - 2

**Local Funds Component of the General Fund Financial Plan**

(\$ thousands)

	<b>FY 2005 Actual</b>	<b>FY 2006 Approved</b>	<b>FY 2006 Revised</b>	<b>FY 2007 Proposed</b>	<b>FY 2008 Projected</b>	<b>FY 2009 Projected</b>	<b>FY 2010 Projected</b>
<b>Revenues</b>							
1 Taxes							
2 General Purpose Non-Tax Revenues	4,052,087	4,101,533	4,110,172	4,341,981	4,613,778	4,892,984	5,179,039
4 Transfer from Lottery	352,427	340,522	319,847	323,575	318,077	320,958	317,518
	71,450	73,100	72,000	72,100	72,100	72,100	72,100
<b>5 General Fund Revenues</b>	<b>4,475,964</b>	<b>4,515,155</b>	<b>4,502,019</b>	<b>4,737,656</b>	<b>5,003,955</b>	<b>5,286,042</b>	<b>5,568,657</b>
6 Gross Sales Tax Dedicated for School Modernization	0	0	0	(100,000)	(106,000)	(112,360)	(119,102)
<b>7 Adjusted General Fund Revenues</b>	<b>4,475,964</b>	<b>4,515,155</b>	<b>4,502,019</b>	<b>4,637,656</b>	<b>4,897,955</b>	<b>5,173,682</b>	<b>5,449,555</b>
8 Bond proceeds for Issuance Costs	4,935	40,000	40,000	30,000	30,000	20,000	20,000
9 Payment-in-Lieu-of-Taxes from WASA	0	1,576	1,576	1,551	0	0	0
10 Transfer from Federal and Private Resources	0	6,502	6,502	6,502	6,646	6,807	6,979
11 Transfer from Special Purpose Funds for Debt Service	0	0	0	8,091	14,526	15,097	15,465
12a Fund Balance Use: To Replace Dedicated Gross Sales Taxes	0	0	0	100,000	0	0	0
12b Fund Balance Use: Transfers to Capital and Trust Fund	0	390,700	390,700	81,487	0	0	0
12c Fund Balance Use: One-time Expenditures in FY	67,325	76,230	79,542	38,305	19,968	0	0
13 Transfer to Special Purpose Revenues	0	(54,395)	0	0	0	0	0
14 Transfer to Capital	0	(30,000)	0	0	0	0	0
15a Revenue Proposals- Tax Compliance Initiatives	0	0	0	49,000	70,000	66,000	64,250
15b Revenue Proposals - Commercial Deed Recordation Tax Increase (School Mod)	0	0	0	0	106,000	73,833	23,919
15c Revenue Proposals/One-time Revenue	0	4,976	0	0	0	0	0
<b>16 Total General Fund Resources</b>	<b>4,548,224</b>	<b>4,950,744</b>	<b>5,020,339</b>	<b>4,952,592</b>	<b>5,145,095</b>	<b>5,355,419</b>	<b>5,580,168</b>
<b>17</b>							
<b>18 Expenditures (by Appropriation Title)</b>							
19 Governmental Direction and Support	272,404	296,632	297,632	325,898	327,471	337,556	347,984
20 Economic Development and Regulation	84,178	101,629	111,729	105,320	92,364	94,844	97,398
21 Public Safety and Justice	782,797	769,785	772,435	870,684	891,165	920,497	950,864
22 Public Education System	1,074,120	1,177,599	1,168,236	1,204,185	1,232,619	1,264,545	1,297,403
23 Human Support Services	1,229,443	1,273,676	1,297,897	1,361,511	1,426,051	1,499,050	1,576,984
24 Public Works	317,426	316,374	316,374	353,493	367,927	382,832	398,392
25 Financing and Other	421,070	537,452	527,163	549,527	628,678	668,075	715,523
26 Cash Reserve (Budgeted Contingency)	0	50,000	48,400	50,000	50,000	50,000	50,000
27 Lease Purchase Costs	22,058	27,441	27,441	43,955	46,320	49,320	51,320
<b>28 Subtotal, Operating Expenditures</b>	<b>4,203,496</b>	<b>4,550,588</b>	<b>4,567,307</b>	<b>4,864,573</b>	<b>5,062,595</b>	<b>5,266,719</b>	<b>5,485,868</b>
29 Paygo Capital	20,550	207,083	208,523	81,487	0	0	0
30 Transfer to Trust Fund for Post-Employment Benefits	0	138,000	138,000	4,700	81,000	86,200	91,800
31 General Fund Contribution to Capital Fund Balance	0	53,800	53,800	0	0	0	0
<b>32 Total General Fund Expenditures</b>	<b>4,224,046</b>	<b>4,949,471</b>	<b>4,967,630</b>	<b>4,950,760</b>	<b>5,143,595</b>	<b>5,352,919</b>	<b>5,577,668</b>
<b>33 Operating Margin, Budget Basis</b>	<b>324,178</b>	<b>1,273</b>	<b>52,709</b>	<b>1,832</b>	<b>1,500</b>	<b>2,500</b>	<b>2,500</b>

Table 3 - 3

**Special Purpose Revenue Component of the General Fund Financial Plan**

(\$ thousands)

	<b>FY 2005 Actual</b>	<b>FY 2006 Approved</b>	<b>FY 2006 Revised</b>	<b>FY 2007 Proposed</b>	<b>FY 2008 Projected</b>	<b>FY 2009 Projected</b>	<b>FY 2010 Projected</b>
<b>Revenues</b>							
3 Special Purpose (O-type) Revenues	311,789	264,254	347,538	372,841	373,534	372,954	386,829
5 <b>General Fund Revenues</b>	<b>311,789</b>	<b>264,254</b>	<b>347,538</b>	<b>372,841</b>	<b>373,534</b>	<b>372,954</b>	<b>386,829</b>
12 Fund Balance Use	13,456	124,712	137,373	106,397	0	0	0
13 Transfer from Local Revenues	0	54,395	0	0	0	0	0
15 Revenue Proposals/One-time Revenue	0	3,753	0	65,700	70,405	75,511	81,117
16 <b>Total General Fund Resources</b>	<b>325,245</b>	<b>447,114</b>	<b>484,911</b>	<b>544,938</b>	<b>443,939</b>	<b>448,464</b>	<b>467,945</b>
17							
<b>Expenditures (by Appropriation Title)</b>							
18 Governmental Direction and Support	22,374	44,226	44,226	54,594	39,524	39,463	40,931
20 Economic Development and Regulation	109,278	226,527	235,827	234,204	221,354	226,090	237,888
21 Public Safety and Justice	22,674	57,252	57,252	70,292	65,994	66,021	68,017
22 Public Education System	8,057	11,703	11,703	20,349	14,732	14,709	15,256
23 Human Support Services	29,094	33,854	42,684	58,401	45,780	45,714	47,285
24 Public Works	11,571	49,727	49,727	54,614	39,538	39,477	40,946
25 Financing and Other	0	23,824	5,694	23,505	17,017	16,990	17,622
27 <b>Subtotal, Operating Expenditures</b>	<b>203,048</b>	<b>447,114</b>	<b>447,113</b>	<b>515,959</b>	<b>443,939</b>	<b>448,464</b>	<b>467,945</b>
31 <b>Total General Fund Expenditures</b>	<b>203,048</b>	<b>447,114</b>	<b>447,113</b>	<b>515,959</b>	<b>443,939</b>	<b>448,464</b>	<b>467,945</b>
32 <b>Operating Margin, Budget Basis</b>	<b>122,197</b>	<b>0</b>	<b>37,798</b>	<b>28,979</b>	<b>0</b>	<b>0</b>	<b>0</b>

Table 3-4

**Federal and Private Resources Financial Plan**

(\$ thousands)

	FY 2005 Actual	FY 2006 Approved	FY 2006 Revised	FY 2007 Proposed	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
<b>Revenues</b>							
F1 Federal Grants	1,633,406	1,911,042	1,911,041	2,003,470	2,126,302	2,257,756	2,399,477
F2 Federal Payment/Contribution	89,166	34,500	62,617	36,400	37,258	38,099	38,960
F3 Private Grants	5,677	16,213	16,213	6,850	7,070	7,292	7,521
<b>F4 Federal &amp; Private Resources</b>	<b>1,728,249</b>	<b>1,961,755</b>	<b>1,989,871</b>	<b>2,046,720</b>	<b>2,170,630</b>	<b>2,303,147</b>	<b>2,445,958</b>
F5 Fund Balance Use	43,420	0	0	0	0	0	0
F6 Transfer to General Fund	0	(6,502)	(6,502)	(6,502)	(6,646)	(6,807)	(6,979)
<b>F7 Total Federal &amp; Private Resources</b>	<b>1,771,669</b>	<b>1,955,253</b>	<b>1,983,369</b>	<b>2,040,218</b>	<b>2,163,984</b>	<b>2,296,340</b>	<b>2,438,979</b>
<b>F8</b>							
<b>Expenditures (by Appropriation Title)</b>							
F9 Governmental Direction and Support	120,489	171,976	171,976	157,746	161,608	165,408	169,301
F10 Economic Development and Regulation	91,671	118,312	118,312	133,742	137,261	140,745	144,325
F12 Public Safety and Justice	9,724	10,577	10,564	7,398	7,629	7,860	8,099
F13 Public Education System	200,469	240,194	265,601	226,462	232,485	238,452	244,583
F14 Human Support Services	1,300,169	1,405,819	1,407,551	1,495,479	1,605,026	1,723,317	1,851,512
F15 Public Works	13,728	8,375	9,365	19,391	19,975	20,558	21,159
F16 Financing and Other	16,697	0	0	0	0	0	0
<b>F17 Total Federal &amp; Private Expenditures</b>	<b>1,752,947</b>	<b>1,955,253</b>	<b>1,983,369</b>	<b>2,040,218</b>	<b>2,163,984</b>	<b>2,296,340</b>	<b>2,438,979</b>
<b>F18 Operating Margin, Budget Basis</b>	<b>18,722</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>F19</b>							
<b>Beginning Federal &amp; Private Fund Balance</b>	<b>139,607</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>
F21 Operating Margin, Budget Basis	18,722	(0)	(0)	0	0	0	0
F22 Projected GAAP Adjustments (Net)	3,038	0	0	0	0	0	0
F23 Fund Balance Use	(43,420)	0	0	0	0	0	0
<b>F24 Ending Federal &amp; Private Fund Balance</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>	<b>117,947</b>

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# Revenue

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## Introduction

The outlook for the District of Columbia's economy in FY 2006 and FY 2007 continues to be favorable, although personal income growth is not expected to be as great as in FY 2005. However, due to the combination of changes in tax policies and unusually rapid increases in revenues for several taxes in FY 2005, overall revenue growth in FY 2006 will be much below that of FY 2005. Revenue gains will be higher in FY 2007, but the percentage increase will be less than the annual gains of almost 10 percent recorded in both FY 2004 and FY 2005.

The District's economic outlook is similar to that which most economists have projected for the nation as a whole—steady growth in employment, wages, and income. The District will benefit from the national growth and some additional strengths of its own. Continued high levels of federal spending means an extra “kick” locally because so many of these dollars will be spent here. Currently, small business growth is helping the economy in the District and this is expected to continue, adding jobs and economic activity. Retail activity will continue to improve, as the number of retail outlets in the District continues to grow and as shoppers increase their spending.

The estimating assumptions for FY 2006 and FY 2007, respectively, include 1.2 percent and 1.1 percent growth each year in total jobs; 5.4 percent and 5.6 percent increases, respectively, in personal income of District residents; and inflation of 3.3 and 2.2

percent. Most of the increases in jobs and wages will be in the District's leading private sector service industries: professional and business services, education, health, membership organizations, retail, and hospitality services.

One key question for the District in FY 2006 and on into FY 2007 is “What will happen in the market for real property?” Rising real estate assessments and transactions were major sources of revenue gains in fiscal years 2003 through 2005. The key fundamentals affecting the District's real estate markets remain strong: the District's economy is growing, individuals and businesses both continue to demonstrate a desire to locate in the District, and the supply of housing and land for commercial development cannot increase very rapidly. Accordingly, the contributions of the real estate sector are expected to be significant in FY 2006 and FY 2007 as well, but they will be more muted, especially as regards the number of transactions.

In FY 2004 and FY 2005 the assessed value of all taxable property in the District (before the application of any caps or credits) increased 14.5 percent and 18.6 percent, respectively. The real property tax baseline will continue to increase by about 12.6 and 9.7 percent during FY 2006 and FY 2007. However, policy changes implemented in FY 2005—increased homestead exemption (to \$60,000), homestead tax increases capped at 10 percent, and a rate reduction—will moderate the revenue impact of the rising assessments. Real property tax revenue gains in FY 2006 will

be 5.8 percent, rising to 9.8 percent in FY 2007.

The total value of taxable real property sales grew 37.1 percent in FY 2005, following a 31.6 percent increase in FY 2004. For FY 2006 and FY 2007 the value of all transactions are expected to increase more modestly beyond FY 2005's high level, due primarily to declining transactions rather than prices. Revenues from deed recorda-

tion, deed transfer and economic interest taxes are expected to increase by 8.6 percent and 9.4 percent respectively in FY 2006 and FY 2007 (net of the transfer to the Housing Production Trust Fund). (Deed recordation, deed transfer and economic interest tax collections actually declined by 1.8 percent in FY 2005 due to the 26.7 percent rate reduc-

Table 3-1

**Estimated Key Variables for the D.C. Economy for the Forecast Period FY 2004 through FY 2010**

	FY 2004 Actual	FY 2005 Actual	FY 2006 Est.	FY 2007 Est.	FY 2008 Est.	FY 2009 Est.	FY 2010 Est.
Gross State Product (nominal; \$ billions)	75.11	80.80	85.70	90.50	95.73	101.10	106.83
	7.7%	7.6%	6.1%	5.6%	5.8%	5.6%	5.7%
Personal Income (\$ billions)	28.24	30.29	31.92	33.70	35.51	37.40	39.38
	6.2%	7.3%	5.4%	5.6%	5.4%	5.3%	5.3%
Earnings of DC Residents (\$ billions)	20.85	22.56	23.90	25.20	26.53	27.88	29.28
	7.7%	8.2%	5.9%	5.4%	5.3%	5.1%	5.0%
Population (thousands)	554.2	550.5	553.9	557.6	561.5	565.5	569.2
	-0.6%	-0.7 %	0.6%	0.7%	0.7%	0.7%	0.7%
Household (thousands)	251.7	252.5	255.3	258.1	261.2	264.2	267.2
	0.9%	0.3%	1.1%	1.1%	1.2%	1.2 %	1.1%
At-place Employment (thousands)	670.5	677.9	686.2	694.0	700.7	709.2	716.4
	0.7%	1.1%	1.2%	1.1%	1.0%	1.2%	1.0%
Civilian Labor Force (thousands)	297.9	301.5	299.5	300.2	302.2	304.4	306.6
	-0.1%	1.2 %	-0.7%	0.2%	0.7%	0.7%	0.7%
Resident Employment (thousands)	274.5	278.2	281.2	281.9	283.4	285.5	287.6
	-1.0%	1.4%	1.1%	0.3%	0.5%	0.7%	0.7%
Unemployment Rate (percent)	7.9	7.7	6.1	6.1	6.2	6.2	6.2
Housing Starts	4,548	4,548	4,775	4,775	4,775	5,000	5,000
Housing Stock (thousands)	276.6	277.7	280.8	284.0	287.3	290.7	294.0
Sale of housing units	13,300	14,218	12,866	11,850	11,637	11,493	11,677
	8.1%	6.9%	-9.5%	-7.9 %	-1.8 %	-1.2%	1.6 %
Average housing price (\$)	411,512	497,331	541,267	572,586	604,717	646,211	691,203
	17.9%	20.9%	8.8%	5.8%	5.6 %	6.9 %	7.0 %
Washington Area CPI (% change from prior year)	2.5	3.9	3.3	2.2	2.3	2.2	2.2
Interest Rate on 10-year Treasury Notes (%)	4.3	4.2	4.7	5.0	5.2	5.2	5.2
Change in S&P Index of Common Stock (%)	19.8	7.9	6.3	5.7	6.7	6.8	6.4

Note: Estimated by the D.C. Office of Revenue Analysis based on forecasts of the D.C. and national economies prepared by Global Insight (Winter 2005) and Economy.com (November 2005); on forecasts of the national economy prepared by the Congressional Budget Office (January 2006) and Blue Chip Economic Indicators (February 2006); on BLS labor market information from January 2006; and on Bureau of Economic Analysis estimates of D.C. Personal Income (December 2005); D.C. housing sales data are from Global Insight.



tion—from 1.5 percent to 1.1 percent on deed transfers and recordations—that took place at the beginning of that year.)

In other areas, growth in personal income and gains in financial markets will expand the individual income tax base, but rate reductions will cut FY 2006's revenues to 2.1 percent below FY 2005. Revenue will rise by 0.8 percent in FY 2007 before returning in FY 2008 to increases more in line with growth in the District's income. Franchise tax revenues also will grow—5.7 percent in FY 2006 and 8.2

percent in FY 2007. By contrast, the increase in FY 2005 was almost 22 percent.

General sales tax revenues will increase in FY 2006 and FY 2007, but the rate of growth will be considerably less than the 14.5 percent that occurred in FY 2005. Developments that gave a special boost to sales tax revenues in FY 2005 include the presidential inauguration, the return of Major League baseball, the full operations of the new Convention Center, and the opening of two new attractions on the Mall—the World War II Memorial and the National Museum of

Table 3-2

### Revenue and Economic Indicators of the District of Columbia, FY 1999 through FY 2005

	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005
<b>Local Source Revenue ('000)</b>	<b>\$3,232,938</b>	<b>\$3,374,763</b>	<b>\$3,655,399</b>	<b>\$3,526,636</b>	<b>\$3,702,281</b>	<b>\$4,062,394</b>	<b>\$4,465,714</b>
Growth	-0.4%	4.4%	8.3%	-3.5%	5.0%	9.7%	9.9%
<b>Baseline Revenue (before tax policy changes) ('000)</b>	<b>\$3,232,938</b>	<b>\$3,465,843</b>	<b>\$3,825,936</b>	<b>\$3,743,584</b>	<b>\$3,969,595</b>	<b>\$4,128,038</b>	<b>\$4,336,757</b>
No. of Employees in DC (Thousands)	620.6	645.2	654.4	661.8	665.9	670.5	677.9
Growth	1.0%	4.0%	1.4%	1.1%	0.6%	0.7%	1.1%
Employees in Gov't (Thousands)	224.4	224.0	224.3	231.5	231.1	230.3	230.9
Growth	-2.2%	0.7%	0.1%	3.2%	-0.2%	-0.3%	0.3%
<b>Population</b>							
No. of DC Residents (Thousands)	570.2	571.0	569.3	564.6	557.8	554.3	550.5
Growth	NA	832	(1,724)	(4,697)	(6,778)	(3,607)	(3,718)
<b>Single Family Housing Sales</b>							
No. of Single Family Sales	NA	NA	5,340	5,488	5,700	5,867	5,372
Growth	NA	NA	NA	2.8%	3.9%	2.9%	-8.4%
<b>S.F. Sales Prices</b>							
Median (\$Thousands)	NA	NA	\$187	\$254	\$285	\$346	\$436
Growth	NA	NA	NA	35.9%	12.2%	21.4%	25.9%
Avg. (\$Thousands)	NA	NA	\$233	\$372	\$397	\$470	\$571
Growth	NA	NA	NA	11.7%	6.8%	18.4%	21.5%
<b>Condo Sales</b>							
No. of Condo Sales	NA	NA	2,656	3,066	3,586	3,919	4,426
Growth	NA	NA	NA	15.4%	17.0%	9.3%	12.9%
<b>Condo Sales Prices</b>							
Median (\$Thousands)	NA	NA	\$166	\$204	\$246	\$300	\$356
Growth	NA	NA	NA	23.0%	20.4%	21.8%	18.7%
Avg. (\$Thousands)	NA	NA	\$199	\$236	\$277	\$334	\$402
Growth	NA	NA	NA	18.2%	17.5%	20.6%	20.4%
<b>Commercial Office Space</b>							
Total Inventory (million sq. ft.)	NA	101.6	104.4	106.4	109.3	111.2	113.5
Growth	NA	NA	2.8%	1.9%	2.7%	1.8%	2.1%
Vacancy Rate (includes sublet)	NA	NA	5.2%	6.7%	6.7%	6.4%	6.1%

the American Indian. The dedication of the parking tax to DDOT means that growth for FY 2006 will only be 3.2 percent in FY 2006, rising to 6.5 percent in FY 2007.

In all, despite a growing D.C. economy, total local revenue available for general fund purposes in FY 2006 is forecast to be just 0.8 percent greater than in FY 2005, but growth in FY 2007 will rise to 5.2 percent. The growth in total local general fund revenue in FY 2005 was 9.9 percent over FY 2004.

Although the national and local economies continue to show considerable strength, recent developments point to a number of possible risks. For example, the U.S. economy continues to grow, but much of this depends upon continued gains in consumer spending. Consumers are heavily indebted, with net saving rates close to zero. Were consumers to cut back on spending, a slowing U.S. economy would eventually impact the District economy, primarily through its dampening effect on tourism receipts, other retail sales, and corporate profits.

Also, driven primarily by higher oil prices, inflation may be a real threat to the national economy. Rising inflation combined with current imbalances in the economy—in particular, the record-level budget and trade deficits—could lead to a rapid upward movement in long-term interest rates. The District's revenue estimates are vulnerable to a sharp rise in the interest rate; our forecast calls for a gradual rise in long-term interest rates. More rapid increases in interest rates could cause more slowing of growth in the real estate market than we are forecasting here. The uncertainties involved in projecting changes in real estate markets that have such a big impact on revenues are comparable with those encountered a few years earlier in trying to anticipate the performance of the stock market, which had such a large impact on income tax revenues.

The S&P 500 stock index on December 31, 2005 was just 3.0 percent higher than a year earlier, and increases that occurred over the past year are very tentative and uneven. A sharp decline, or a prolonged period of stagnation in the U.S. stock market, would adversely affect the District's revenues, particularly individual income tax revenues as stock market returns for the current year

are a significant determinant of the changes to income tax revenue in the year that follows.

Another source of risk is the pattern of federal expenditures. Federal spending is the significant economic underpinning of the entire Washington D.C. Metropolitan area, including the District of Columbia itself. Security concerns arising out of 9/11 and the Iraq war have resulted in large increases in government spending that benefited the Washington D.C. area. Efforts to reduce government spending over the next few years to bring greater balance to federal fiscal policy could dampen growth in the District of Columbia.

### The D.C. Economy

The outlook for the District is favorable if things go well nationally. However, because the rate of growth in federal spending is expected to slow, the growth in the District's economy for FY 2006 and FY 2007 is not expected to outpace that of the U.S. economy as it did in FY 2004 and FY 2005 (see tables 4-1 and 4-2 for key variables reflecting the District's economy).

The driving forces in expected gains in output, income, and employment in FY 2006 and FY 2007 are private sector services (professional and business services, health, education, membership organizations, retail, and hospitality) along with federal government spending. (Federal government employment will not increase, however.) The Financial Plan also assumes that inflation will decline in FY 2007. The value of real estate is expected to continue to increase in both FY 2006 and FY 2007, although the number of transactions will not. In FY 2006 and FY 2007 resident employment and the number of households are both expected to increase.

Highlights of the economic assumptions are:

■ *Slower growth in nominal Gross State Product.*<sup>1</sup>

Growth rates in FY 2006 and FY 2007 are 6.1 percent and 5.6 percent, respectively, somewhat less than the 7.6 percent growth for FY 2005. The slower growth rate in the next two years reflects a slowing down in the growth of federal spending and the fact that the District has already recovered from earlier slowdowns. Major services, government

spending, and retail and hospitality all contribute significantly to the increase in GSP.

- *Continued growth in jobs located in D.C.* The number of jobs in the District in FY 2006 is expected to show a net increase of 8,300 (1.2 percent), then increase another 7,800 (1.1 percent) in FY 2007, with all gains in private sector services. The percent gain in FY 2006 slightly exceeds that in FY 2005.
- *Slower personal income growth.*<sup>2</sup> Growth rates in FY 2006 and FY 2007 are 5.4 percent and 5.6 percent, respectively, down from 7.3 percent growth for FY 2005.
- *Lower inflation expected in FY 2007.* The Financial Plan assumes D.C. inflation will be 3.3 percent in FY 2006 and 2.2 percent in FY 2007. The rate in FY 2005 was 3.9 percent.
- *The number of housing sales projected to decline, while the average price continues to increase.*<sup>3</sup> In FY 2006 the number of housing sales is expected to decrease about 9.5 percent and another 7.9 percent in FY 2007. However, the average price of units sold is expected to increase 8.8 percent, and rise again in FY 2007 by another 5.8 percent. This increase in prices, down from the 20.9 percent increase experienced in FY 2005, is due to both supply and demand factors in the District's residential market. Comparable changes are expected in commercial values as well.
- *Population and employment gains are projected.* In FY 2006 and FY 2007 the increases in housing construction and in the number of District households is expected to translate into gains in total population and employed residents as well. Accordingly, the Financial Plan assumes that FY 2005 will be the ending point for declines in population that occurred in prior years; the FY 2006 estimated population of 553,900 is up 3,400

(0.6 percent) from FY 2005. The unemployment rate is expected to decline from 7.7 percent in FY 2005 to 6.1 percent in each of FY 2006 and FY 2007, as the increase in D.C. resident employment outpaces the increase in the District's labor force.

## Revenues

The FY 2007 and revised FY 2006 estimates show General Fund revenues of \$5.225 billion and \$4.850 billion, respectively (see Table 3-3). These amounts include local source General Purpose Tax, Non-Tax, and Special Purpose Revenues, and proposed tax policy changes. Table 3-3 reports estimated revenue by revenue source for the period FY 2006 to FY 2010, along with actual FY 2005 revenues.

The total local fund portion of General Fund revenue (without policy proposals) is estimated to be \$4.502 billion in FY 2006 and \$4.738 in FY 2007, representing growth of 5.2 percent (see table 4-3). The projected out-year growth in 2008-2010 exceeds 5 percent in each year. Total tax revenue is estimated to be \$4.110 billion in FY 2006 and \$4.342 billion in FY 2007, representing growth of 5.6 percent. The projected tax revenue growth in 2008 is 6.3 percent, declining to 6.1 percent in 2009 and dropping to 5.8 percent in 2010.

## Specific Revenue Sources

The income taxes account for 32.5 percent of estimated local general fund revenues in FY 2006, followed by 26.1 percent in property tax revenues, 19.2 percent in sales tax revenues, and 22.2 percent from all other sources (see figure 4-1). The Other Taxes include Deed Taxes (Deed Recordation, Deed Transfer, Economic Interest), and the Estate Tax.

<sup>1</sup> GSP, the value added in production by the labor and property located in a state, is a measure of the gross output of all industries in a state.

<sup>2</sup> Personal income is a measure of before-tax income received by all persons in a state. It is the total of net earnings by place of residence, rental income, personal dividend income, personal interest income, and transfer payments. Wages and salaries are the biggest component of personal income. Health and other employee benefits are also a significant component.

<sup>3</sup> In the table, the number of sales and average price of residential real estate is measured by the average selling price of single family and condominium units as reported by the Metropolitan Regional Information System (MRIS), as accessed through the Greater Capital Area Association of Realtors. The MRIS system reports only sales handled by brokers.

Table 3-3

# General Fund Revenue by Source, Fiscal Year 2005 Actual, Fiscal Years 2006-2010 Estimates and Projections

(\$ thousands)

Revenue Source	FY 2005 Actual	FY 2006 Revised	FY 2007 Original	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
Real Property	1,058,100	1,119,770	1,229,342	1,332,983	1,428,388	1,524,553
Personal Property (net)	62,068	54,549	55,165	55,960	56,974	57,644
Public Space	15,628	NA	NA	NA	NA	NA
<b>Total Property</b>	<b>1,135,796</b>	<b>1,174,319</b>	<b>1,284,507</b>	<b>1,388,943</b>	<b>1,485,362</b>	<b>1,582,197</b>
General Sales (gross)	845,798	870,759	922,616	969,043	1,019,501	1,073,431
<i>Convention Center Transfer</i>	<i>(77,490)</i>	<i>(78,210)</i>	<i>(78,250)</i>	<i>(82,313)</i>	<i>(86,588)</i>	<i>(91,091)</i>
General Sales (net)	768,308	792,549	844,366	886,730	932,913	982,340
Alcohol	5,051	5,013	4,977	4,944	4,912	4,882
Cigarette	22,336	20,238	19,724	19,223	18,735	18,260
Motor Vehicle	42,380	44,359	46,431	48,599	50,869	53,245
<b>Total Sales</b>	<b>838,075</b>	<b>862,159</b>	<b>915,498</b>	<b>959,496</b>	<b>1,007,429</b>	<b>1,058,727</b>
Individual Income	1,160,074	1,135,146	1,144,252	1,207,798	1,280,652	1,352,874
Corporation Franchise	195,492	203,175	219,064	232,614	244,254	253,958
U. B. Franchise	116,866	126,999	138,264	151,915	166,561	182,511
<b>Total Income</b>	<b>1,472,432</b>	<b>1,465,320</b>	<b>1,501,580</b>	<b>1,592,327</b>	<b>1,691,467</b>	<b>1,789,343</b>
Public Utility (gross)	174,084	166,041	166,042	166,043	166,043	166,044
<i>Baseball Gross Receipts Tax</i>	<i>(8,045)</i>	<i>(9,184)</i>	<i>(9,303)</i>	<i>(9,424)</i>	<i>(9,546)</i>	<i>(9,546)</i>
Public Utility (net)	166,039	156,857	156,739	156,619	156,497	156,498
Toll Telecommunication (gross)	55,486	54,607	54,612	54,721	54,742	54,760
<i>Baseball Gross Receipts Tax</i>	<i>(910)</i>	<i>(3,162)</i>	<i>(3,165)</i>	<i>(3,165)</i>	<i>(3,165)</i>	<i>(3,165)</i>
Toll Telecommunication (net)	54,576	51,445	51,447	51,556	51,577	51,595
Insurance Premiums	48,888	48,000	48,000	48,000	48,000	48,000
Healthcare Provider Tax	0	8,000	11,000	11,000	11,000	11,000
<b>Total Gross Receipts</b>	<b>269,503</b>	<b>264,302</b>	<b>267,186</b>	<b>267,175</b>	<b>267,074</b>	<b>267,093</b>
Estate	29,257	21,420	20,072	19,352	18,657	18,652
Deed Recordation (gross)	190,048	208,516	228,555	250,427	274,343	300,543
<i>Transfer to HPTF</i>	<i>(28,507)</i>	<i>(31,277)</i>	<i>(34,283)</i>	<i>(37,564)</i>	<i>(41,151)</i>	<i>(45,081)</i>
Deed Recordation (net)	161,541	177,239	194,272	212,863	233,192	255,462
Deed Transfer (gross)	146,929	161,663	177,490	194,849	213,886	234,782
<i>Transfer to HPTF</i>	<i>(22,039)</i>	<i>(24,250)</i>	<i>(26,624)</i>	<i>(29,227)</i>	<i>(32,083)</i>	<i>(35,217)</i>
Deed Transfer (net)	124,890	137,413	150,866	165,622	181,803	199,565
Economic Interests	10,593	8,000	8,000	8,000	8,000	8,000
<b>Total Other Taxes</b>	<b>326,281</b>	<b>344,072</b>	<b>373,210</b>	<b>405,837</b>	<b>441,652</b>	<b>481,679</b>
<b>TOTAL TAXES</b>	<b>4,042,087</b>	<b>4,110,172</b>	<b>4,341,981</b>	<b>4,613,778</b>	<b>4,892,984</b>	<b>5,179,039</b>
Licenses & Permits	74,010	68,408	70,845	68,604	71,661	68,705
Fines & Forfeits	108,012	110,637	107,336	103,221	99,990	96,497
Charges for Services	51,344	50,513	53,218	52,460	54,161	54,175
Miscellaneous Revenue	119,061	90,289	92,176	93,792	95,146	98,141
<b>TOTAL NON-TAX</b>	<b>352,427</b>	<b>319,847</b>	<b>323,575</b>	<b>318,077</b>	<b>320,958</b>	<b>317,518</b>

Table 3-3 (continued)

# General Fund Revenue by Source, Fiscal Year 2005 Actual, Fiscal Years 2006-2010 Estimates and Projections

(\$ thousands)

Revenue Source	FY 2005 Actual	FY 2006 Revised	FY 2007 Original	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected
Lottery/Interfund Transfer	71,450	72,000	72,100	72,100	72,100	72,100
<b>TOTAL LOCAL FUND</b>						
<b>REVENUE</b>	<b>4,465,964</b>	<b>4,502,019</b>	<b>4,737,656</b>	<b>5,003,955</b>	<b>5,286,042</b>	<b>5,568,657</b>
<b>SPECIAL PURPOSE REVENUE</b>						
<b>FUNDS</b>	<b>311,789</b>	<b>347,538</b>	<b>372,841</b>	<b>373,534</b>	<b>372,954</b>	<b>386,829</b>
<b>TOTAL GENERAL FUND WITHOUT</b>						
<b>POLICY PROPOSALS</b>	<b>4,777,753</b>	<b>4,849,557</b>	<b>5,110,497</b>	<b>5,377,490</b>	<b>5,658,996</b>	<b>5,955,486</b>
<b>TOTAL GENERAL FUND</b>						
<b>WITHOUT POLICY PROPOSALS</b>						
<b>PLUS TAX REVENUES</b>						
<b>TRANSFERRED OUT</b>	<b>4,944,103</b>	<b>5,045,051</b>	<b>5,309,049</b>	<b>5,588,928</b>	<b>5,874,934</b>	<b>6,176,810</b>
<b>POLICY PROPOSALS:</b>						
<b>Local Fund Revenue:</b>						
Increased Compliance			49,000	70,000	66,000	64,250
Enforcement						
<b>Subtotal, Local Fund Revenue</b>			<b>49,000</b>	<b>70,000</b>	<b>66,000</b>	<b>64,250</b>
<b>Proposals</b>						
<b>Special Purpose Revenue</b>						
<b>(O-type) Funds:</b>						
911 Fee			15,000	15,105	15,211	15,317
CareFirst			3,500	3,500	3,500	3,500
Residential Deed Tax Increase			47,200	51,800	56,800	62,300
<i>Transfer to HPTF</i>			<i>7,000</i>	<i>7,800</i>	<i>8,500</i>	<i>9,400</i>
<i>Transfer to Comprehensive</i>						
<i>Housing Strategy Fund</i>			<i>40,200</i>	<i>44,000</i>	<i>48,300</i>	<i>52,900</i>
<b>Subtotal, Special Purpose</b>			<b>65,700</b>	<b>70,405</b>	<b>75,511</b>	<b>81,117</b>
<b>Revenue Fund Proposals</b>						
<b>TOTAL POLICY PROPOSALS</b>			<b>114,700</b>	<b>140,405</b>	<b>141,511</b>	<b>145,367</b>
<b>TOTAL GENERAL FUND WITH</b>						
<b>POLICY PROPOSALS</b>	<b>4,777,753</b>	<b>4,849,557</b>	<b>5,225,197</b>	<b>5,517,895</b>	<b>5,800,507</b>	<b>6,100,853</b>
<b>TOTAL GENERAL FUND</b>						
<b>WITH POLICY PROPOSALS</b>						
<b>PLUS TAX REVENUES</b>						
<b>TRANSFERRED OUT</b>	<b>4,944,103</b>	<b>5,045,051</b>	<b>5,423,749</b>	<b>5,729,333</b>	<b>6,016,445</b>	<b>6,322,177</b>

Table 3-3 (continued)

### General Fund Revenue by Source, Fiscal Year 2005 Actual, Fiscal Years 2006-2010 Estimates and Projections

(\$ thousands)

Revenue Source	FY 2005 actual	FY 2006 revised	FY 2007 original	FY 2008 projected	FY 2009 projected	FY 2010 projected
<b>ADDENDUM</b>						
<b>Tax Revenues Transferred out of the General Fund</b>						
Convention Center						
<i>Sales Tax</i>	77,490	78,210	78,250	82,313	86,588	91,091
Tax Increment Financing						
<i>Sales &amp; Property Tax</i>		22,840	24,190	25,187	26,102	26,777
Ballpark Fund						
<i>Sales Tax</i>	8,547	11,348	12,500	19,808	18,596	18,301
<i>Public Utility</i>	8,046	9,184	9,303	9,424	9,546	9,546
<i>Toll Telecommunication</i>	909	3,162	3,165	3,165	3,165	3,165
<i>Gross Receipts</i>	16,207	14,000	14,000	14,000	14,000	14,000
Highway Trust Fund						
<i>Motor Fuel Tax</i>	25,912	26,750	26,844	26,938	27,032	27,221
DDOT Capital						
<i>Parking Tax</i>	29,239	30,000	30,300	30,603	30,909	31,224
<b>Total Transfers</b>	<b>166,350</b>	<b>195,494</b>	<b>198,552</b>	<b>211,438</b>	<b>215,938</b>	<b>221,325</b>

## Policy Proposals

The Fiscal Year 2007 Budget Support Act contains four policy proposals that affect District of Columbia revenues:

- Change the tax treatment of CareFirst;
- Increase the 911 fee to pay for 911 services;
- Increase residential deed taxes to fund housing initiatives; and
- Increased compliance enforcement.

### Change the Tax Treatment of CareFirst

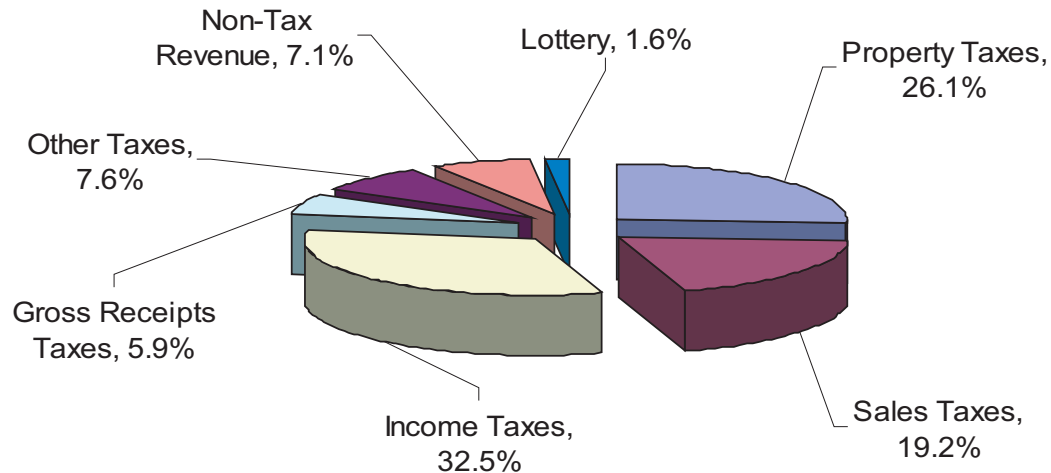
Under current law, the insurance premiums tax rate charged to CareFirst is 1.0 percent, instead of the full 1.7 percent insurance premiums tax rate. This lower rate was contingent upon CareFirst establishing an open enrollment pro-

gram and depositing the revenue from the 1.0 percent tax into a Rate Stabilization Fund. However, the open enrollment program has not been established to the full satisfaction of the District. In fact, in FY 2004, at the request of the Department of Insurance, Securities and Banking, CareFirst returned \$2.776 million in insurance premiums taxes to the District's General Fund.

The proposed change in law would increase the insurance premiums tax rate on CareFirst to the full 1.7 percent and deposit the entire amount into an Affordable Health Coverage fund, which will be used by the Department of Health to fund health coverage programs for District residents. The estimated revenue in FY 2007 from imposing the full 1.7 percent rate on CareFirst is \$5.5

Figure 4-1

## FY 2006 Local Fund Revenue



million. However, the certified revenue estimate assumed that CareFirst would continue to return a minimum of \$2 million to the General Fund in FY 2007 and beyond. As such, the net revenue increase from this proposed change in law is \$3.5 million.

### Increase the 911 Fee to Pay for 911 Services

Currently, the 911 fee structure is \$0.76 per month per phone line (both wireline and wireless). The rate on Centrex phone lines is \$0.62 per month per phone line. This proposal would increase both monthly rates to \$1.45 in order to generate \$15 million. The funds would be added to the existing special revenue fund dedicated to 911 and 311 assessments and would ensure that the 911/311 special revenue fund would have adequate resources to fully fund 911/311 services. Currently, 911/311 services are supported by both the special revenue fund and general fund resources.

### Deed Tax Rate Increase

This proposal increases the deed recordation and transfer tax rates on residential sales from 1.1 percent to 1.5 percent. This proposal will generate gross revenue of \$47.2 million in FY 2007 with \$7.0 million (15% of the gross) transferred to the Housing Production Trust Fund and the remainder of \$40.2 million dedicated to the Comprehensive Housing Strategy Fund.

### Increased Compliance Enforcement

This proposal comprises several initiatives by the Office of Tax and Revenue to increase compliance in the reporting and paying of District taxes. The initiatives include: full implementation of the Clean Hands by all DC agencies issuing licenses; reducing the rate of fraud associated with Schedule C filings, the earned income tax credit (EITC), and the sales and use tax; greater auditing of the District's Homestead program; and stepping up the identification and review of

vacant properties to reduce the number of exceptions. The increased compliance enforcement efforts are estimated to generate \$49.0 million in FY 2007.

## Procedures for Estimating Revenue

The process of estimating revenue begins a year in advance. The estimates for FY 2007, for instance, were begun in September 2005.

In September we issue a revenue call to all agencies requesting reports and projections on the amount of user fees, fines, and other types of non-tax income agencies expect to generate.

Economic forecasting assumptions for the District are received from two nationally known economic analysis and forecasting firms, Global Insight, Inc. (formerly DRI-WEFA) and Economy.com, in late summer or late fall. These assumptions help us build the base for growth over the forecast horizon.

During the late summer and throughout the fall, analysts maintain contact with people throughout the District government who are knowledgeable of the collection of all tax and non-tax revenues. This includes the Office of Tax and Revenue and agencies that have user fees or that impose fines. This gives us a good feel for progress in meeting the current year's goals and for understanding likely trends in the near future.

Analysts follow the year-end closing to be aware of accounting issues that might affect revenues – for instance, changes in accounts receivable or reserves that might impact revenue numbers.

Two advisory groups help us understand the economy:

- The first, a technical advisory group, meets in December and June and is composed of experts in revenue forecasting. Membership includes representatives from the Congressional Budget Office (CBO), the Richmond Federal Reserve, the Commonwealth of Virginia, the State of Maryland, and other jurisdictions and related organizations.
- The second advisory group, composed of knowledgeable local business representa-

tives, advises us about current economic trends and helps us understand where the private sector thinks things are heading. This group meets with us in February and July. Members of this group represent the hotel and tourism industry, real estate and housing, banking and finance, neighborhood groups, downtown development interests, the education sector, and other interests.

Updated economic assumptions are received from forecasting firms in January. This allows us to fine-tune our projections based on the most recent data available before the final forecasts are released.

At the end of January, CBO releases its Winter Report. This provides recent and valuable guidance on where the national economy is expected to go over the next ten years. As the national economy has a great deal of impact on the D.C. economy, this report is a valuable tool in the final stages of the revenue estimation process.

Subsequent steps in revenue estimating are part technical and part investigative.

The technical part of revenue estimating involves using econometric methods to find statistically valid models that replicate past collections and project confidence intervals for future collections. The models use explanatory variables to account for revenue collections over time relying on relationships between (a) the money collected by the District in a given tax type, and (b) economic variables that track the underlying tax base. For example, in the unincorporated business tax, one model shows a strong lagged relationship between employment in construction and activity in the real estate market (as measured by collections in the transfer tax). This makes sense given that much of the activity that is taxed by the unincorporated business franchise tax is in the real estate and construction segments of the D.C. economy. The economic forecasting variables are used directly in these methodologies.

The rest of the process is where the investigating comes into play. The next step is to incorporate the revenue impact of legislation



Table 3-4

**Percentage Changes in General Fund, Local Revenue by Source**

(percentage changes from prior FY, except where noted)

Revenue Source	FY 2004 (actual) (\$ thousands)	FY 2005 (actual)	FY 2006 (rev.)	FY 2007 (orig.)	FY 2008 (proj.)	FY 2009 (proj.)	FY 2010 (proj.)
Real Property	947,690	11.7%	5.8%	9.8%	8.4%	7.2%	6.7%
Personal Property (net)	63,558	-2.3%	-12.1%	1.1%	1.4%	1.8%	1.2%
Public Space	16,728	-6.6%	-100.0%	NA	NA	NA	NA
<b>Total Property</b>	<b>1,027,976</b>	<b>10.5%</b>	<b>3.4%</b>	<b>9.4%</b>	<b>8.1%</b>	<b>6.9%</b>	<b>6.5%</b>
General Sales (gross)	732,994	15.4%	3.0%	6.0%	5.0%	5.2%	5.3%
<i>Convention Center Transfer</i>	<i>(61,977)</i>	<i>25.0%</i>	<i>0.9%</i>	<i>0.1%</i>	<i>5.2%</i>	<i>5.2%</i>	<i>5.2%</i>
General Sales (net)	671,017	14.5%	3.2%	6.5%	5.0%	5.2%	5.3%
Alcohol	5,090	-0.8%	-0.8%	-0.7%	-0.7%	-0.6%	-0.6%
Cigarette	20,765	7.6%	-9.4%	-2.5%	-2.5%	-2.5%	-2.5%
Motor Vehicle	40,437	4.8%	4.7%	4.7%	4.7%	4.7%	4.7%
<b>Total Sales</b>	<b>737,309</b>	<b>13.7%</b>	<b>2.9%</b>	<b>6.2%</b>	<b>4.8%</b>	<b>5.0%</b>	<b>5.1%</b>
Individual Income	1,042,309	11.3%	-2.1%	0.8%	5.6%	6.0%	5.6%
Corporation Franchise	168,353	16.1%	3.9%	7.8%	6.2%	5.0%	4.0%
U. B. Franchise	88,347	32.3%	8.7%	8.9%	9.9%	9.6%	9.6%
<b>Total Income</b>	<b>1,299,009</b>	<b>13.4%</b>	<b>-0.5%</b>	<b>2.5%</b>	<b>6.0%</b>	<b>6.2%</b>	<b>5.8%</b>
Public Utility (gross)	169,494	2.7%	-4.6%	0.0%	0.0%	0.0%	0.0%
<i>Baseball Gross Receipts Tax</i>	<i>0</i>	<i>NA</i>	<i>14.2%</i>	<i>1.3%</i>	<i>1.3%</i>	<i>1.3%</i>	<i>0.0%</i>
Public Utility (net)	169,494	-2.0%	-5.5%	-0.1%	-0.1%	-0.1%	0.0%
Toll Telecommunication (gross)	54,951	1.0%	-1.6%	0.0%	0.2%	0.0%	0.0%
<i>Baseball Gross Receipts Tax</i>	<i>0</i>	<i>NA</i>	<i>247.5%</i>	<i>0.1%</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
Toll Telecommunication (net)	54,951	-0.7%	-5.7%	0.0%	0.2%	0.0%	0.0%
Insurance Premiums	47,452	3.0%	-1.8%	0.0%	0.0%	0.0%	0.0%
Healthcare Provider Tax	0	NA	NA	37.5%	0.0%	0.0%	0.0%
<b>Total Gross Receipts</b>	<b>271,897</b>	<b>-0.9%</b>	<b>-1.9%</b>	<b>1.1%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
Estate	26,466	10.5%	-26.8%	-6.3%	-3.6%	-3.6%	0.0%
Deed Recordation (gross)	193,555	-1.8%	9.7%	9.6%	9.6%	9.6%	9.6%
<i>Transfer to HPTF</i>	<i>(29,033)</i>	<i>-1.8%</i>	<i>9.7%</i>	<i>9.6%</i>	<i>9.6%</i>	<i>9.5%</i>	<i>9.6%</i>
Deed Recordation (net)	164,522	-1.8%	9.7%	9.6%	9.6%	9.6%	9.6%
Deed Transfer (gross)	143,232	2.6%	10.0%	9.8%	9.8%	9.8%	9.8%
<i>Transfer to HPTF</i>	<i>(21,485)</i>	<i>2.6%</i>	<i>10.0%</i>	<i>9.8%</i>	<i>9.8%</i>	<i>9.8%</i>	<i>9.8%</i>
Deed Transfer (net)	121,747	2.6%	10.0%	9.8%	9.8%	9.8%	9.8%
Economic Interests	16,269	-34.9%	-24.5%	0.0%	0.0%	0.0%	0.0%
<b>Total Other Taxes</b>	<b>329,004</b>	<b>-0.8%</b>	<b>5.5%</b>	<b>8.5%</b>	<b>8.7%</b>	<b>8.8%</b>	<b>9.1%</b>
<b>TOTAL TAXES</b>	<b>3,665,195</b>	<b>10.3%</b>	<b>1.7%</b>	<b>5.6%</b>	<b>6.3%</b>	<b>6.1%</b>	<b>5.8%</b>

Table 3-4 (continued)

**Percentage Changes in General Fund, Local Revenue by Source**

(percentage changes from prior FY, except where noted)

Revenue Source	FY 2004 (actual) (\$ thousands)	FY 2005 (actual)	FY 2006 (rev.)	FY 2007 (orig.)	FY 2008 (proj.)	FY 2009 (proj.)	FY 2010 (proj.)
Licenses & Permits	61,505	20.3%	-7.6%	3.6%	-3.2%	4.5%	-4.1%
Fines & Forfeits	99,478	8.6%	2.4%	-3.0%	-3.8%	-3.1%	-3.5%
Charges for Services	53,705	-4.4%	-1.6%	5.4%	-1.4%	3.2%	0.0%
Miscellaneous Revenue	109,011	9.2%	-24.2%	2.1%	1.8%	1.4%	3.1%
<b>TOTAL NON-TAX</b>	<b>323,699</b>	<b>8.9%</b>	<b>-9.2%</b>	<b>1.2%</b>	<b>-1.7%</b>	<b>0.9%</b>	<b>-1.1%</b>
Lottery/Interfund Transfer	73,500	-2.8%	0.8%	0.1%	0.0%	0.0%	0.0%
<b>TOTAL LOCAL GENERAL FUND</b>	<b>4,062,394</b>	<b>9.9%</b>	<b>0.8%</b>	<b>5.2%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>5.3%</b>

and additional factors that cannot be captured by econometric models. For instance, when we were developing revenue projections prior to the opening of the new convention center we knew there would be an impact in the amount of revenue generated by the sales tax, particularly at the restaurant and hotel sales tax rates. No econometric model can capture this impact. However, an estimate of the impact must be included in our revenue projections.

The final step is to run a reality check on the numbers produced. To do this, we compare the projected trends with those of the Congressional Budget Office and neighboring jurisdictions. If our projections are substantially different for individual income tax collections than what CBO is projecting, for example, we need to explain the difference. This helps ensure that our understanding and knowledge of the fundamentals of a tax type are consistent with those of other professionals in the field. The pattern of changes over the projection horizon is also scrutinized in this phase of the process. A dramatic jump or drop from one period to the next needs to be understood.

For the FY 2003 estimates, we contracted with KPMG to review our data and estimating methodologies, determine whether the methodologies are correctly implemented,

and recommend changes where they find areas of weakness. Overall, they concluded that ORA uses sound methodologies and implements them competently. They also found that the greatest cause of uncertainty in the estimates is the quality of the data.

### Additional Information on D.C. Revenues

Table 3-4 provides information on the percentage changes in General Fund, Local Revenue by source

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# Capital Improvements Plan

## FY 2007 - FY 2012

### Introduction

The District of Columbia continues to make progress in implementing its Capital Improvement Plan (CIP). The proposed FY 2007-FY 2012 capital budget includes major investments in schools and libraries as well as continuing investments in affordable housing, economic development, parks and recreation centers, mass transit, and a variety of other areas. The District faces two challenges that limit its ability to expand its CIP as much as might be desired: it must work within a constrained borrowing environment, because its debt per capita is so high, and it must continue reducing the deficit in its General Capital Improvements fund.

The Mayor's proposed FY 2007-FY 2012 capital budget calls for financing \$656.3 million of general capital expenditures in FY 2007, from the following sources:

- \$400 million of General Obligation (G.O.) bonds,
- \$181.5 million of pay-as-you-go (Paygo) capital financing—a transfer of funds from the General Fund to the General Capital Improvements Fund—and
- \$74.8 million through the master equipment lease program.

Several other sources are proposed to finance several large-scale capital projects as well.

Of the FY 2007 Paygo total, \$100 million is the first year's installment of a newly enacted \$1 billion plan for schools modernization for the D.C. Public Schools (DCPS). The plan calls for \$100 million of operating budget revenue to be transferred each year to DCPS. This financing will supplement G.O. bond-financed capital projects, for which DCPS is already scheduled to receive budget authority.

This highlights chapter summarizes

- The proposed FY 2007-FY 2012 capital budget and planned expenditures;
- Details on the District's sources of funds for capital expenditures; and
- The shortfall in the capital fund, and steps the District will take to reduce the shortfall.

### The Proposed FY 2007-FY 2012 Capital Budget and Planned Expenditures

The District budgets for capital using a six-year CIP, which is updated annually. The CIP consists of the appropriated budget authority request for the upcoming fiscal year and projected funding as well as expenditure plans for the next five years. The proposed FY 2007-FY 2012 CIP includes many of the projects from last year's CIP, but some projects are proposed to receive different levels of funding, and new projects have been added as well.

The CIP is used as the basis for formulating the District's annual capital budget. The Council and the Congress adopt the budget as part of the District's overall six-year CIP. Following approval of the capital bud-

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Table 4-1

### Overview

(Dollars in thousands)\*

Total number of projects receiving funding	193
Number of ongoing projects receiving funding	113
Number of new projects receiving funding	80
FY 2007 new budget allotments	\$507,371
FY 2007 expenditures planned from prior allotments	\$148,929
Total FY 2007 planned expenditures	\$656,300
Total FY 2007 to FY 2012 planned funding	\$3,188,693
Total FY 2007 to FY 2012 planned expenditures	\$3,188,693
FY 2007 Appropriated Budget Authority Request**	\$1,995,455
FY 2007 Planned Debt Service (G.O. Bond)	\$409,614
FY 2007-FY 2010 Planned Debt Service (G.O. Bond)	\$1,955,872

\* Local funds only; excludes projects financed through Local Streets Maintenance Fund, Highway Trust Fund, revenue bonds, Certificates of Participation, financing for baseball, or other one-time borrowing, except where noted.

\*\* From all funds, excluding only projects financed through Local Streets Maintenance Fund and Highway Trust Fund.

get, bond acts and bond resolutions are adopted to finance the majority of projects identified in the capital budget. Inclusion of a project in a congressionally adopted capital budget and approval of requisite financing gives the District the authority to spend funds for each project. The remaining five years of the program show the official plan for making improvements to District-owned facilities in future years

The District uses two terms in describing budgets for capital projects:

- *Budget authority* is given to a project at its outset in the amount of its planned lifetime budget; it can later be increased or decreased during the course of implementing the project. The District's appropriation request consists of changes to budget authority for all projects in the CIP.
- *Allotments* are planned expenditure amounts on an annual basis. A multi-year project receives full budget authority in its first year but only receives an allotment in the amount that is projected to be spent in that first year. In later years, additional allotments are given annually. If a year's allotment would increase the total allotments above the lifetime budget amount, an increase in budget authority is required to cover the difference.

Agencies may obligate funds up to the limit of (lifetime) budget authority for a project but cannot spend more than the total of allotments the project has received to date.

The FY 2007 - FY 2012 local funds CIP proposes a net increase in budget authority of \$1.637 billion during the next six fiscal years (an increase of \$1.698 billion of new budget authority offset by \$61 million of rescissions).

Planned capital expenditures from local sources in FY 2007 total \$656.3 million, of which \$581.5 million is to be funded by G.O. bonds and Paygo financing (transfers from the District's General Fund). To finance this \$581.5 million of expenditures, the District plans to borrow \$400 million in new G.O. bonds and fund the remaining \$181.5 million using Paygo financing.

Two features of the proposed FY 2007-2012 capital budget will help reduce the deficit in the District's capital fund. First, new allotments from all financing sources will be limited to \$507.4 million. The other \$148.9 million of planned FY 2006 expenditures will be against allotments that agencies have received in prior years for their capital projects. By providing more financing than the new allotments awarded, the District

will finance expenditures against previously awarded budget allotments. Second, actual G.O. bond borrowing will be \$450 million, although only \$400 million will be made available for FY 2007 capital expenditures. The other \$50 million will go toward deficit reduction for the capital fund.

After several years of underfunding, the District has significantly increased its expenditures to reinvest in its infrastructure. However, even today, it is not able to fund all its identified capital needs. The District is limited by funding as well as competing demands on capital. As a result of these demands, the District has taken action to meet its priorities while also maintaining a fiscally sound CIP. First, it has prioritized its capital projects and rescinded budget authority from those projects it deemed less important. Second, it has reallocated funding to high priority projects - both existing and new so that it can meet its most pressing infrastructural needs.

Figure 4-1 illustrates the distribution of new FY 2007 allotments by major agency. Funding for D.C. Public Schools (DCPS), including schools modernization funding, constitutes the largest share of the planned expenditures. DCPS will have a total of \$223.3 million available from three sources of capital project financing in FY 2007:

- New G.O. bond allotments (\$63.3 million)
- Paygo transfer from sales tax revenue (\$100.0 million)
- First portion of FY 2006 Schools Modernization fund (\$60 million, estimated).

A significant portion of funding also goes to the Office of the Chief Technology Officer and the Washington Metropolitan Area Transit Authority.

Table 4-2 summarizes planned capital expenditure amounts for FY 2007 and budget authority requests for FY 2007-FY 2012. It includes both local funds (G.O. bond, Paygo, and master equipment lease) and special financings that are discussed in greater detail below.

Figure 4-2 illustrates the planned funding by fund type for local funds projects in FY 2007. This figure shows that the primary source of funding for the capital improvements program is through its issuance of general obligation bonds, but a significant proportion is from Paygo.

The capital fund pro forma, table 4-3, summarizes the sources and uses for local funds in the District's CIP. The project description forms that constitute the detail of the capital appendices volume include all projects

Figure 4-1

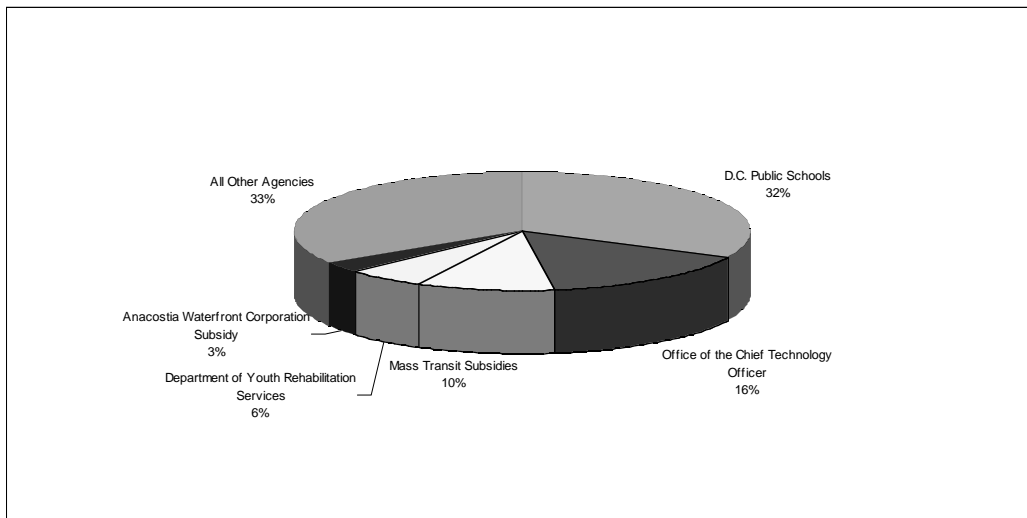
**FY 2007 Capital Allotments, by Major Agency**

Table 4-2

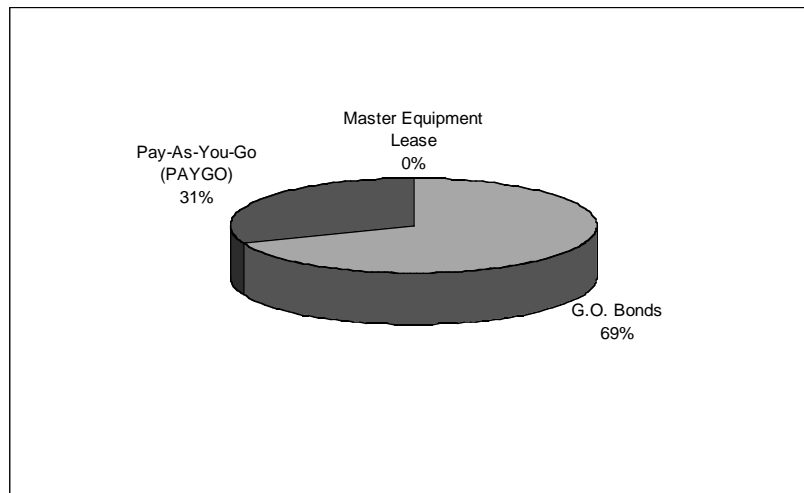
**Proposed FY 2007 Expenditures and FY 2007-FY 2012 Capital Budget Authority**

(Dollars in thousands)

Source	Proposed FY 2007 Expenditures	Proposed FY 2007-FY 2012 Budget Authority
G.O. Bonds	400,000	
PAYGO capital funding (transfer from the General Fund)	181,487	
Master Equipment Lease financing	74,813	
<b>Subtotal, Local Funds</b>	<b>656,300</b>	<b>1,637,255</b>
Additional G.O. bond borrowing:		
Capital fund deficit reduction	50,000	50,000
Schools Modernization Fund	60,000	0
Government Center buildings	200,000	18,200
Great Streets initiative (bus shelter revenue)	64,000	0
Revenue bonds:		
New Communities (HPTF revenue)	75,000	15,000
Financing for baseball stadium	267,400 (est.)	63,000
Financing for National Capital Medical Center	TBD	212,000
<b>Total</b>	<b>1,372,700</b>	<b>1,995,455</b>
<b>Additional Sources:</b>		
Local Street Maintenance Fund:		
Rights-of-way funds	Forthcoming (June)	Forthcoming (June)
50 percent of parking tax revenue	Forthcoming (June)	Forthcoming (June)
Highway Trust Fund:		
Federal Highway Administration grants	Forthcoming (June)	Forthcoming (June)
Local match from dedicated motor fuel tax revenues	Forthcoming (June)	Forthcoming (June)

Figure 4-2

## Source of Funds for Capital Expenditures, FY 2007



receiving new allotments in FY 2007 through FY 2012 from local sources, totaling \$507.4 million.

### Details on the District's Sources of Funds for Capital Expenditures

The Mayor's proposed FY 2007-2012 capital budget includes a number of funding sources. The District uses the following sources to fund capital budget authority across a large number of agencies that have capital programs:

- G.O. bonds;
- Paygo capital funding; and
- Master Equipment Lease financing.

Projects funded by these sources are detailed in the Project Description Forms (PDFs) in the capital appendices.

Additional G.O. Bond borrowing of \$50 million is proposed for deficit reduction in the capital fund.

The Mayor also proposes to use additional G.O. bond borrowing, revenue bonds, and a one-time borrowing to finance specific projects:

**Schools Modernization Fund:** The Mayor proposes to borrow \$60 million in FY 2007 for the Schools Modernization Fund by issuing G.O. bonds. This fund received \$150 million of budget authority in the FY 2006 budget. Because D.C. Public Schools is revising its Master Facilities Plan, which is due to be released in spring 2006, DCPS has not started spending against this authority, and the District has not yet borrowed any of the funds. In FY 2007, borrowing is anticipated to be \$60 million, with the remainder of the borrowing to

occur in later years as DCPS finalizes its plans for these funds.

**Government Center Buildings:** The Mayor proposes to borrow \$200 million for two Government Center buildings, the Anacostia Gateway Building and the Minnesota/Benning Center. These centers will house the District's Departments of Transportation, Employment Services, and Human Services. In the FY 2006 budget, the District received \$200 million of budget authority to complete these projects by issuing Certificates of Participation (COPs). Rather than issue COPs, the Mayor proposes to finance these projects using more cost-effective G.O. bonds. During FY 2006, the District reprogrammed \$18.2 million of the \$200 million of budget authority to enable it to purchase a building at 95 M St. SW for the Department of Motor Vehicles (DMV). In FY 2007, the Mayor is requesting an additional \$18.2 million of budget authority to restore the Government Centers total to \$200 million.

**Great Streets:** The Mayor proposes to borrow \$64 million in FY 2007 for the Great Streets initiative. In the FY 2006 budget, the District received \$88 million of budget authority to complete this project through a securitization of revenues from a new bus shelter contract. Rather than securitizing these revenues, the Mayor proposes to finance this project using more cost-effective G.O. bonds. Revenues from the bus shelter contract will be dedicated to pay the debt service on this additional G.O. debt. The current plan is to use a lump sum payment of \$24 million that the District receives in

Table 4-3

**Capital Fund Pro Forma**

(Dollars in thousands; excludes Highway Trust and Local Streets Maintenance Funds and special financings)

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	Total, FY 2007- FY 2012	Percent of FY 2007
<b>Sources:</b>								
G.O. Bonds	400,000	411,424	411,638	351,008	338,729	310,347	2,223,146	60.9%
Pay-As-You-Go (PAYGO)	181,487	106,000	112,360	119,102	126,248	133,823	779,019	27.7%
Master Equipment Lease	74,813	22,345	22,570	22,865	23,285	20,650	186,528	11.4%
<b>Total, Sources</b>	<b>656,300</b>	<b>539,769</b>	<b>546,568</b>	<b>492,975</b>	<b>488,262</b>	<b>464,819</b>	<b>3,188,693</b>	<b>100.0%</b>
<b>Uses: New Allotments</b>								
D.C. Public Schools	163,299	217,197	229,809	243,177	257,348	272,369	1,383,199	32.2%
Office of the Chief Technology Officer	79,336	21,546	16,884	17,549	14,839	8,900	159,054	15.6%
Mass Transit Subsidies	48,700	55,900	60,900	68,400	76,200	80,000	390,100	9.6%
Department of Youth Rehabilitation Services	28,500	3,000	0	0	0	0	31,500	5.6%
Anacostia Waterfront Corporation Subsidy	16,000	15,000	0	0	0	0	31,000	3.2%
D.C. Public Library	16,250	39,552	26,603	26,788	38,108	22,168	169,469	3.2%
Deputy Mayor for Economic Development	23,500	15,800	8,500	0	0	0	47,800	4.6%
Office of Property Management	14,760	43,660	35,520	21,820	19,920	18,820	154,500	2.9%
Department of Health	15,200	0	2,800	0	0	0	18,000	3.0%
Department of Transportation	14,405	11,500	10,400	6,100	1,500	1,500	45,405	2.8%
Department of Parks and Recreation	12,992	34,045	51,175	33,575	14,557	12,520	158,864	2.6%
Department of Motor Vehicles	13,404	7,600	0	0	0	0	21,004	2.6%
Department of Public Works	11,928	11,195	6,420	6,275	7,635	7,800	51,253	2.4%
Fire and Emergency Medical Services	11,519	11,852	31,066	24,368	17,850	17,200	113,855	2.3%
Dept. of Consumer And Regulatory Affairs	9,195	7,750	7,750	7,750	7,750	7,750	47,945	1.8%
Metropolitan Police Department	5,900	7,450	10,800	5,200	5,200	5,200	39,750	1.2%
Department of Mental Health	2,000	2,500	500	0	0	0	5,000	0.4%
Dept. of Housing and Comm. Development	3,875	8,750	7,450	1,000	3,850	2,350	27,275	0.8%
University of the District of Columbia	3,300	5,800	13,370	8,800	0	0	31,270	0.7%
Department of Corrections	3,090	2,300	5,299	5,150	7,482	220	23,541	0.6%
Department of Human Services	3,000	5,849	5,500	0	0	0	14,349	0.6%
Commission on Arts & Humanities	2,500	2,500	2,500	2,700	2,700	2,700	15,600	0.5%
Office of Municipal Planning	2,122	2,122	2,122	2,122	2,122	2,122	12,735	0.4%
Office of the Chief Financial Officer	2,100	5,200	10,200	11,200	11,200	3,200	43,100	0.4%
Office of the City Administrator	497	0	1,000	1,000	0	0	2,497	0.1%
Office of the Chief Medical Examiner	0	1,700	0	0	0	0	1,700	0.0%
<b>Subtotal, New Allotments</b>	<b>507,371</b>	<b>539,769</b>	<b>546,568</b>	<b>492,975</b>	<b>488,262</b>	<b>464,819</b>	<b>3,039,764</b>	<b>100.0%</b>
<b>Uses: Planned Spending from Prior-Year Allotments</b>								
	148,929	0	0	0	0	0	148,929	
<b>Total, Uses</b>	<b>656,300</b>	<b>539,769</b>	<b>546,568</b>	<b>492,975</b>	<b>488,262</b>	<b>464,819</b>	<b>3,188,693</b>	

the first year of the contract and to borrow \$64 million against the revenue stream for FY 2007 and beyond.

*New Communities:* The Mayor proposes to issue \$75 million of revenue bonds in FY 2006 and another \$75 million in FY 2007 for a major investment in the Northwest One community, which includes the Sursum Corda public housing development and surrounding areas, as part of the New Communities initiative. To pay the debt service on these bonds, funds will be transferred from the Housing Production Trust Fund (HPTF), which is funded by dedicated revenue (from deed recordation and deed transfer taxes). The District received \$60 million of budget authority in the FY 2006 budget for this project through securitization of the HPTF revenues, but the securitization has not yet taken place. The Mayor is requesting an additional \$90 million of budget authority in FY 2007 to bring the total to \$150 million, the amount estimated to be financed by \$12 million of transfers annually from the HPTF for debt service. Use of \$6 million of HPTF revenue annually for debt service is currently authorized, and this is the anticipated debt service level for FY 2007. Depending on the timing of the project, the Mayor will seek authority to use another \$6 million annually, which will allow a total of \$12 million to be paid starting in FY 2008.

*Baseball Stadium:* The District received \$534.8 million of budget authority in the FY 2006 budget to build the baseball stadium, and in an FY 2005 supplemental appropriation, it also received \$33.0 million of authority to spend revenues collected that year. Thus, total current budget authority for the project is \$567.8 million.

The total cost is now projected to be \$630.8 million (of which the District will contribute \$610.8 million and Major League Baseball will contribute \$20.0 million.) The Mayor is requesting \$63.0 million of budget authority in FY 2007, to bring the total project budget authority to \$630.8 million. See the Special Study chapter on Baseball in the District of Columbia for more information on the project and its financing.

*New Mental Health Hospital:* The District is borrowing \$200 million in FY 2006 for a new mental health hospital by issuing COPs. The issuance is combined with the COPs for the DMV building, as described earlier. Authority for this \$200 million was provided by Congress in the FY 2006 appropriation. It does not appear in the FY 2006 capital budget book, but Congress added to the requested capital appropriation amount when it passed the District's budget.

*National Capital Medical Center:* The Mayor pro-

poses to use revenues from the District's settlement with major tobacco companies to back debt service on borrowing in FY 2006 for the National Capital Medical Center. This new hospital would be built by the District and Howard University and operated by Howard.

Finally, the District's Department of Transportation uses the following sources to fund its capital projects:

- Rights-of-way funds, for Local Street Maintenance Fund projects;
- Parking tax revenue (50 percent), for Local Street Maintenance Fund projects;
- Federal Highway Administration grants, for Highway Trust Fund projects; and
- Dedicated motor fuel tax revenues, for Highway Trust Fund projects (provides the local match for the Federal Highway Administration grants).

Projects in the Local Street Maintenance Fund and the Highway Trust Fund are detailed in a separate Highway Trust Fund budget document that will be published with the budget that is transmitted to Congress in June 2006.

## Future Projects

Borrowing for the following projects is planned for FY 2008 or later years:

*East Washington traffic initiative:* In the FY 2006 budget, the District received \$230 million of budget authority for this project, the major components of which are the rebuilding of the 11th Street and Sousa (Pennsylvania Avenue) bridges. Parking tax revenue (50 percent of the revenue) supports this project, and federal funds are also anticipated to support this project. A large borrowing is anticipated in FY 2008, with debt service to be paid by the parking tax revenue stream.

*Consolidated Laboratory Facility:* The District is building a new consolidated laboratory that will be used by the Metropolitan Police Department, the Department of Health, and the Office of the Chief Medical Examiner. Both the District and the federal government have begun financing this project, and planning is well underway. In FY 2008, the Mayor proposes undertaking a large G.O. bond issuance for this project, and the District will also seek additional federal funding.

*New Central Library:* The Mayor proposes a new central library to be built on the site of the old convention center. The proposal is to borrow using tax increment financing and a bond backed by a payment-in-lieu of taxes, and also to use revenues from a long-term lease-



Table 4-4

**Proposed Borrowing, FY 2007 Through FY 2009**

(Dollars in thousands)

Source	FY 2007	FY 2008	FY 2009
G.O. bonds, general, including deficit reduction	450,000	461,424	461,638
G.O. bonds for Schools Modernization	60,000	90,000	0
G.O. bonds for Government Center buildings	200,000	0	0
G.O. bonds for Great Streets (debt service backed by bus shelter revenue)	64,000	0	0
Revenue bonds for New Communities (debt service backed by Housing Prod. T.F. revenue)	75,000	75,000	0
G.O. bonds for East Washington traffic initiative (debt service backed by parking tax revenue)	0	230,000	0
G.O. bonds for Consolidated Laboratory Facility (1)	0	75,000	75,000
New Central Library (debt service backed by funds from lease or sale)	0	TBD	TBD

(1) \$5 million of FY 2007 borrowing for Consolidated Laboratory Facility is included in G.O. bond total on first row.

## General notes:

All amounts and methods of borrowing are subject to change depending on status of projects and market conditions.

Borrowing for 95 M St. SW, baseball stadium, new mental health hospital, and National Capital Medical Center to take place during FY 2006.

payment for the site of the current central library.

Table 4-4 shows expected borrowing amounts for FYs 2007 through 2009 for these projects.

### Shortfall in the General Capital Improvements Fund

For the past five fiscal years, the District's Comprehensive Annual Financial Report (CAFR) has shown a shortfall in the General Capital Improvements fund (the "capital fund") (see table 4-5). The shortfall was about \$246 million at the end of FY 2005. This means that capital expenditures have exceeded financing sources by that amount on a cumulative basis, and the District's General Fund has advanced funds to the capital fund to cover the expenditures.

Until a few years ago, agencies had been slow to spend capital dollars, resulting in the District's paying interest on borrowed funds that then sat idle earning lower interest rates in District bank accounts. The District instituted a policy to delay borrowing until funds were needed for expenditures. At the same time, agencies were pushed to begin spending budgeted capital dollars. The General Fund paid for capital expenditures up front and was reimbursed after bonds were issued. While these policies have had the beneficial effect of lowering debt service costs in the operating budget, the shortfall must be kept within limits, or the General Fund may encounter cash flow problems.

The capital fund commingles a wide variety of expenditures and financing sources. All District capital

expenditures other than those in the local Highway Trust Fund and the Ballpark Revenue Fund (for the baseball stadium) are recorded in the capital fund. Financing sources for the capital fund are primarily G.O. bonds but also include other types of borrowings, federal grants, and other sources. The District is taking steps to isolate the G.O. bond financed portion of the capital fund from the other funding sources, to determine the portion of the fund's shortfall that is attributable to G.O. bond financed projects.

To manage and reduce the fund's shortfall, the District is taking several steps:

- In FY 2006, \$54 million was appropriated to transfer resources from the General Fund to the capital fund, to directly reduce the shortfall.
- In addition, the District will manage capital expenditures so that they remain below financing sources in each year. This can be difficult, because while agencies receive new spendable budgets (allotments) each year, they may also spend against prior-year allotments that have not yet been exhausted. Thus, agencies must manage against a spending target that is usually lower than the budget authority that they currently have.
- Finally, the Mayor's proposed FY 2007-2012 capital budget proposes borrowing \$450 million but applying only \$400 million to new capital expenditures, so that \$50 million can be used for deficit reduction.

For this reason, while financing sources in FY 2007 total \$656 million, the District's proposed capital bud-

get includes new allotments of only \$507 million. This will allow \$149 million of expenditures against unspent prior-year allotments. The Mayor, the Council, and the Chief Financial Officer will continue to work to reduce the shortfall in the capital fund over the next four years.

Table 4-5

**Fund Balance in the General Capital Improvements Fund, FY 1998-FY 2005**

(Dollars in millions)

<b>Fiscal Year</b>	<b>Positive / (Negative) Fund Balance</b>
1998	224.0
1999	387.5
2000	458.4
2001	(57.9)
2002	(389.5)
2003	(141.8)
2004	(250.2)
2005	(246.4)